# BULLETIN

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**Promotion of Small Industry in Tamil Nadu**
**The missing Dimension**

**The Current deficit and its 'Malcontents'**
**A consideration in balance of payment adjustment**

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# EDITORIAL - SOME HIGHLIGHTS

## I. General Economic Scene

### State

#### Planning Commission

In December there were two meetings of the Planning commission at which Project Hunger and its implications for the state's VIII Plan was reviewed. At a second meeting on the irrigation sector in the state's Eighth Plan was discussed the major highlights established for review by the full meeting of the Commission. There was also an examination of the Rural Development sector in the state's Eighth Plan. It is noted that the state's Eighth Plan is in a far more advanced stage of drafting and preparation than the National Plan, whose status is still under discussion and will be referred to later.

#### Weather and Prices

Before the North East monsoon terminated by mid December, there was wide spread rains all over the state, with, for instance Tiruthuraipoondi recording 6cm of rainfall in just one day, followed by Palayamkottai, Nagapattinam, Vedaranyam and Trivellore where 4 cm each was recorded. All districts except Dharmapuri, Salem and Tiruchirapalli have received copious rains to the point where the Mettur reservoir was closed because of the heavy rains over the delta. Further the Periyar, Vaigai and Tamaraparani — Khadayar systems were the major beneficiaries. The storage in the city reservoirs also increased, the total reaching 3857 million cubic feet (mcft) against the total capacity of 6483 mcft — with two of the reservoirs — Red Hills and Sholavaram being near full. For the past 3 months the state received 45 cm of rain against the normal 47 cm. North central districts are in the deficient category. This means that both the irrigation and drinking water situation for this year is in a good position. On the price situation in the state there is the same wide gap between the official record on inflation and the empirical evidence as known

and experienced by the people. CSO's June 1990 issue states that the index number of consumer prices for industrial workers rose by just 1 point to 177 in March 1990, the index of consumer prices for agricultural workers records a rise of 5 points (around 0.8 per cent) in March but a sharp increase in April by 12 points (1.8 per cent) to 731 due to the even higher rise in food prices by 18 points (2.4 per cent), while the consumer price index for urban non manual workers records relative stability (rising by 3 points in Madurai, by 2 points in Madras, Salem, and Tiruchirapalli and 1 point in Coimbatore.) The empirical evidence, however, is that in Coimbatore food prices, particularly vegetable and fruit prices were sky rocketing, going up from a two fold to five fold increase. This is contrary to the index reported for urban non-manual employees.

## Power

The power situation in the state was normal with further easing of the problem of meeting the peak load demand because of the storage position of the hydel reservoirs and the improved supply of coal to the power plants. As a consequence towards the months' end, the cut on HT users was reduced from 30 to 20 per cent on demand and 30 to 10 per cent on energy. Attention is therefore being turned to the long term power needs of the state, particulary on the Eighth Plan instruments needed, in which there is likely to be a shortfall because of the overall resource scarcity faced by the country and also the state. This is somewhat acerbated by the increasing subsidisation of the power supply to the agricultural sector, which is largely based on non technical considerations.

In the country, the power situation in December was normal except in Andhra Pradesh which expects a cut on HT users in the New Year, allowing some more considerations to long term factors. The major such factor is the energy shortage facing the country caused more by wastage of energy plus the result of the gulf crisis. By 2004—2005, 450 million tonnes of coal, 94 million tonnes of oil and 919 billion units of electricity will be needed against the present 94 million tonnes of coal, 32 million tonnes of coal and 221 billion units of electricity ceiling for an investment of $220 billion over the next 5 years. For now 38,000 MW of additional power generation capacity is required during the VIII Plan against which only 23,000 MW additional capacity is being provided (if the estimated resources do not deteriorate further). This means a shortfall of 15,000 MW in peak power supply (21.5 per cent) and a shortfall of 15.8 billion unit in energy availability (4 1 per cent). While the shortfall in the peak load demand can be met by using certain available options to level the demand, requiring State Electricity Boards to impose basic discipline on industry, particularly HT consumers involving setting up on line control systems, the overall energy shortage is more worrying. This applies particularly to the southern region, where three types of corrective actions are being taken. One is to increase its power capacity, for which the 2420 MW super thermal power plant at a cost of Rs. 3000 crores is being set up in Kayamkulam and on which work has started in December 1990 and in which the first 2 units will be commissioned in 1995. A second possibility suggested is to connect the southern grid where the most serious shortage is faced to

the western grid. Here the use of gas for generation of surplus power in the western grid which can be transferred to the southern grid should be explored, even as the project for building gas pipelines to the South from the HBJ lines is being finalised and developed. (See Vol XIX pp353 and 600 and Vol XIX p503). A third way is the various measures for energy conservation including energy audit by every industry and establishment which have been set forth by the committee in question and for which it is reported that some Rs. 800 crores have been allocated in the VIII Plan period and in various non conventional energy resources which we are just bringing to use in a rather limited way. These latter include solar energy which has now moved out of the laboratory and is being commercialised, wind power which a 500 MW target has been set for the VIII Plan, bio mass programmes particularly gasification and liquid fuels production and use of energy sources now being thrown away like 323 million tonnes of agricultural residues, 1365 million tonnes of animal dung, 49 million tonnes of rice husk, bagasse, groundnut shells and .15 million tonnes of urban refuse and night soil.

## Water

The major event in December is the suggestion made by Tribunal that Karnataka release 5 tmcft of Cauvery water to Tamil Nadu to meet the urgent needs of the Delta farmers. The first reaction of the government of Karnataka was to refuse this suggestion of the tribunal on the grounds that there is not enough storage in its reservoirs. Later, Karnataka has expressed its willingness to release the 5 tmc of water provided a) Tamil Nadu does not press for either the injunction against the ongoing state projects in the Cauvery basin and / or its demands for 33 tmcft of water to meet the emergency requirements of the delta region, and b) it (Karnataka) be compensated by Tamil Nadu supplying power because the release of the lumpsum flow will affect Karnataka's power generation. The Tamil Nadu government has expressed its inability to accept the first proviso. Following the earlier reference to the December rainfall, the immediate results are a) 1260 non system irrigation tanks of the total of about 6500 tanks in the state are full, 1883 tanks have 3 months supply, 1013 tanks have 2 months supply and 1274 have 1 month supply, which enable farmers to plan their farming activities accordingly, b) while Mettur was closed because of the good rains in the delta, 2000 cusecs were released to help the standing crops in Tiruchi district and c) Madras city is now assured daily water as the 3 reservoirs having the second highest storage of 3850 tmcft at the end of the year. The Telugu Ganga project which is to meet the long term drinking water needs of Madras city is now expected to be completed later than the original 1993 date, by January 1994. As of early December AP government had completed 40 per cent of its project work. Finally in view of the fact, according to the TN standing irrigation and water resources commission, that 85 per cent of the state's water potential has been fully utilised, two decisions need to be noted and acted upon. First, 5000 percolation ponds are to be constructed in addition to the 17.49 irrigation wells serving 43.17 hectares. The problem posed by the wells is the over extraction of groundwater along with reduced natural recharge of the acquifers could in part be met by this scheme of developing percolation ponds as a vital component of watershed mana-

gement. Second, an empirical study of the hydrological data coupled with hydro meteorological data and forecasts which will make possible the control of our water resources bringing together catchments' irrigation systems and volume and velocity of water use.

## Transport

The movement of goods on the Madras-Ennore section which is now reaching its limit, will be facilitated when the third line now being surveyed is completed so that it will be available in two years time, in 1993 when the North Madras thermal plant is to go on stream. The line will move the 4 takes of coal per day between Madras port and Athipattu transport by bus for passengers. In light of the recent experience, it is wise that the Transport Corporation are planning to concentrate the reduction of services (in order to save crude-diesel consumption) on one day in the week (Sunday), instead of spreading it out to all days.

## Urban Development

The infrastructural services in the major cities and towns of the state are being strengthened with the help of the World Bank loan of Rs. 632 crores. Now what is needed is the early acquiring of the land for the 20,000 house sites under the sites and services programme, which will be financed with a third of the above sum. About 8 per cent of the loan is being used on improvement of 94,C00 slum units. These are parts of the approved national housing applicable to the state.

## Rural Development

With the assistance of the national cooperation and as part of its integrated cooperative development project, the Kamarajar district is location of the programme in the state, where its planning and execution are done at the Kamarajar district level which receives a special subsidy for some part of it and 100 per cent financing for other parts of the programme — all of which aim at an integrated approach to the development programmes. The programme is being extended this year to 4 more districts — South Arcot, Tiruvannamalai—Sambavarayan, Coimbatore and Pudukottai. The problem raised by this and other projects of this kind is the feature of integration on which all of them insist – which involves bringing together the work of several departments and disciplines in the area. This concept of irrigation is sound in theory and is essential for any real development, but apart from the over worked district collector, there is no local infrastructure to bring the departments develop them into a coherent programme and monitor its execution. This problem applies to health, nutrition, coastal areas, hill areas and other development approaches A second event in the rural area is the decision of the government to extend the deadline of December 15 by which the cultivating tenant was to avail himself of the relief provided under the Tamil Nadu Cultivating Tenants Arrears of Rent Act 1990. So far only a few tenants have exercised this option and so two more months time have been given — upto February 15, 1990 to enable all eligible tenants to avail themselves of this relief. This ordinance extending the dealine by 2 months is based on the assumption that the reason why only a few tenants have applied for the relief is because of lack of information on it. This is surprising because information on reliefs like these spread like wild fire in the rural areas. It may be necessary to enquire into

the causes for the non exercise of the option by tenants, if the same situation is faced on at February 15, 1990.

## National

### Plan

December was a month when nothing could be done on the Eighth Plan and even the finalisation of the Annual Plan of the states and the union ministers for 1991-92. First, the Planning Commission has had to be reconstituted and this process would not be completed till near the end of the month. Second, there was the question of the Plan priorities of the new government and its interpretation of the Approach Paper of which it was cognisant and was involved in its approval. The Approach Paper is authoritative as it has been approved by the National Development Council but even so the new government wants its seal on the plan projects. Here these two questions, the change of the composition of the commission and change in effect of the content of the Plan every time the government changes need to be faced by the country, people and their representatives in Parliament. The constitution or legislation does not require these two changes of members and programmes. It has been fortunately developed since 1977 when after 4 five year Plan, the party which had been in power was replaced and new party was voted in. Since then there has been this double change-of the commission membership and the plan programme every time the government changes—which has happened now thrice in less than a decade and a half. There is need for a firm convention to be established that the Planning Commission and its members are and the Plan document are insulated from political changes. If and when a new government is voted in, it must carry out the approved programme unless as in the case of the VII Plan whose formulation and start coincided with the new government. As for the members, they should be changed only when their term of appointment expires. Till then they should not be changed. This is the only way in which the development of the country can be safeguarded and protected. Now all development activity has come to a standstill and will be so for another 6 months when the Eighth Plan will be finalised—if there is not another change in government. The most serious problem facing the commission and the government is the size of the plan. With inflation raging, the budget deficit now pointing to double of what was budgeted with the Balance of Payments and foreign debt and its servicing running away, the level of the Plan and the resources to be raised become basic questions. The gulf crisis has added to these uncertainties. The Annual Plans for 1990-91 of the state and the Union show that the growth will be less than 5 per cent—that by itself is not important, but the uncertainties in programme priorities which have resulted in this slippage are important. The Planning Commission on the basis of a 3 member sub committee has recommended to the government that the Plan size be maintained at Rs. 3,35,000 crores. This is now likely to be accepted by the government.

### Prices

The rate of inflation in November on a point to point basis rose by 1.2 points (0.7 per cent), the wholesale index standing at 184.91 for the week ended

December 1, 1990. As has been happening the major rise in the last week was due to primary article prices which rose by 0.6 per cent and in primary articles, food articles rose by 0.7 per cent, with cereals rising by 0.4 per cent, fruits by 2.8 per cent, milk by 1.7 per cent, vegetables by 0.9 per cent and eggs, meat, fish and spices rising by 0.8 per cent. The annual rates of inflation has now passed the double digit figure which was the danger point and was hoped would not be crossed, being 10.6 per cent. What is also disturbing is that this rise is recorded during the time when there was marked deceleration in the expansion of aggregate monetary resources (between April and June 1990) which means that the inflationary pressure is coming from the supply side of goods/services being limited in supply. The decline in money supply was largely caused by a decline in deposit expansion. Further, this inflationary pressure is taking place at a time of plentiful monsoon signalling another year of bumper crops. One commodity whose price shot up by over 60 per cent, is edible oils which in December usually sees a fall in prices because of kharif arrivals. In part this is due to edible oil prices being price inelastic so that even a small shortfall in supply pushes up prices as it did in 1988-89 when there was a shortage of 5 lakh tonnes. This year the shortfall is feared to be over 10 lakh tonnes and there is no possibility of any import relief because of shortage of foreign exchange. Will a loan free IMF ease this and other price rise factors ?

**Budget and Stock Exchange**

In December the fiscal balance in the economy worsened seriously. First the Budget deficit for 1990-91 which had been established in May when the budget was approved at Rs. 7200 crores was reported by the government to to have near doubled to Rs. 14000 crores. The government points out that the budget deficit which is only a partial measure of fiscal imbalance fluctuated around 2 per cent of GDP with the revenue dificit being 2.2 per cent of in 1985-86 rising to 2.8. per cent in 1989-90. The fiscal deficit of the union government which is the difference between total revenue and total expenditure was much larger raising from 3.2 per cent of GDP in 1974-75 to 6.1 per cent in 1980-81 to 8 per cent in the VII Plan. The second imbalance reported in December was that the trade deficit and was similarly much larger (by over 50 per cent) of what was forecast in April with consequences on the negative level of the Balance of Payment—which will be analysed in some detail later in the foreign trade section. A third fiscal imbalance is the mounting foreign debt and the serious difficulty in servicing it-all of which are leading to the government negotiating a large loan from the IMF—which will also be referred to later in the loans and aid section. Against these imbalances the government has taken two actions—both rather late in the day. The first is the first decision to raise additional excise and auxiliary customs duties which in a full year will yield Rs. 1340 crores, involving a total additional revenue of Rs. 2175 crores. So the December levies will raise a total of Rs. 2173 crores this year from customs and auxiliary customs duties (Rs. 835 crores were raised in the budget). This was a start to raise the resources needed to keep the deficit down but is no more than a start. For even with other revenue raising measures such as the Gulf surcharge on corporate incomes, the hike in

petroleum products and other administered prices and the other ARM of the 1990-91 budget, there is still a large resource gap to be filled. So in a second round, Parliament approval was obtained for revising the surcharge on income tax of incomes above Rs. 75,000 from 8 to 12 per cent which will yield Rs. 60 crores this year and the deduction for depreciation for the current year was restricted to 75 per cent of what was allowed, yielding Rs. 750 crores—a total of Rs. 810 crores. Also the government has announced that the gulf surcharge of 25 per cent on petroleum products is to be continued next year, though the parliamentary affairs minister says that the surcharge will be reviewed and the Prime Minister says that it will be reduced only if the crude oil price is reduced. All this shows lack of clarity on this point of the government. Taking the VP Singh government's additional levies of the 25 per cent gulf surcharge and the increased 7 per cent corporate tax surcharge and the import and excise as well as and the present tax increases, the 1990-91 yield will be Rs. 3900 crores. The present levies will yield Rs. 2500 crores in a full year and Rs. 1600 crores this year. This should have been the first source to be tapped, with a special effort to get at the huge volume of black money and wealth circulating in the economy. In this direct taxes area, agricultural incomes above the ceiling level should be taxed (on the basis of an inter-state council agreement) and incomes of self employed professionals and traders more carefully assessed and fully taxed. Not only is this source of direct taxation both revenue raising and more equitable, it is one way of preventing inflation. Infact the additional levies through customs will raise the cost of our inputs and so push up prices. The other issue is the rather slow and inadequate start of belt tightening that has been undertaken in the areas of the austerity measures needed and set forth in the last issue of the bulletin. In early December the government announcement of austerity measures sounds not only inadequate but like a cruel joke. The measures include a) a ban on purchase of vehicles till March 31, 1991, b) a 10 per cent cut on telephones and electricity, c) discontinuance of all official entertainments, d) enforcing the 20 per cent cut in consumption of diesel and petrol. All these cosmetic changes do not touch the heart of what needs to be done in cutting down government expenditure — namely cutting the 48 per cent revenue expenditure on subsidies and defence. The move to cut the fertiliser subsidy which has jumped from Rs. 375 crores to Rs. 4600 crores in the last 10 years by hiking fertiliser prices by 10 per cent which will fall on the large farmers is only a start because what is needed is a programme of action to reduce fertiliser subsidy altogether. This is more so because the foodgrains subsidy which is now Rs. 2200 crores is threatening to go up to Rs. 8000 crores if the new norms for determination of procurement prices is implemented by the government. One thing urgently needed is to hold back any decision in implementing of the new price determination norms as it will spell disaster for the budget and the economy. On defence, at least a reduction of 10 per cent particularly of the costly and over estimated foreign purchase can be affected without detriment to the country's security. The government proposed to the winter session of Parliament a supplementary budget of Rs. 648.92 crores to cover Rs. 300 crores as CSS for exports, Rs. 150 for S A I L, Rs. 100 crores for internal security and DAs.

On the stock market front, 1990 was a good year continuing the record growth of the 80s when market capitalisation rose from $ 7.5 billion in 1980 to $23 billion in 1990, from 4.4 per cent of GDP to 8.5 per cent, becoming the third largest stock market in the world in terms of the number of share holders and increasing its share of gross capital formation from 8 per cent to 15 per cent — according to the World Banks International Finance Corporation. The amount of equity raised was only Rs. 90 crores in 1980, increasing to Rs. 878 crores in 1987. There are problems of insufficient liquidity in the market and the need for a more integrated approach to financial sector development, resource mobilisation and the promotion of investment and economic growth is stressed. In December, the meeting of presidents of stock exchanges has asked for comprehensive reform of stock market operations, starting with the need for changes in the listing agreement. This means that the stock market board must ensure orderly trading in the market, not condoning aberrations in trading as at present. The stock exchange board need to be vested with real authority provided they are professionalised with outside professionals more than brokers. For this, government intervention is needed. Will it be available in the present economic and political climate? The stock market is ending the year on a rather sober note, more given the escalating gulf crisis, rising inflation, acute balance of payment situation, shortage of commodities, fresh close of taxation, recession in international markets, dwindling exports and empty foreign exchange reserve.

## The Economy

The economy at this point of time, December 1990 presents some long term facets as well as some immediate short term problems. First, the long term issues. In a recent review of the economy for the Asian Development Bank the need is emphasised for curtailing the budgetary deficit of government and its financing through Internal and external borrowing, which calls for reducing governments revenue expenditures, for making planning an opening economy framework rather than for import substitution as at present ; for an intergrated approach for trade, industrial and fiscal policy formulations instead of being formulated independently of each other ; for producing low cost steel as a basis for expanding exports of metal based and engineering industries and which are more employment intensive, in line with the country's comparative competitive advantage, which also to an extent will redress the economy's regional imbalances which have remained unchanged over the 7 plan period ; for paying attention to the promotion and diffusion of information technology which along with material science and bio-technology and micro electronics are at the heart of the ongoing technological revolution ; for the concentration of the largest possible share of the available investible resources both in the public and private sector on efficient capacity expansion in the intermediate goods and services sector. In this analysis the emphasis on planning for an open economy and intermediate goods and services do not go alongwith the urgent need for concentrating on employment generating, basic needs meeting wage goods. With regard to the regional disparities referred to, there is the problem of quantification of the objective balanced regional development. Per capita income can be used which shows that against the all India level when the per capita income has increased from Rs. 300 in 1960-61 to Rs. 2907

in 1987-88, with Punjab (Rs. 5477 per capita), Maharashtra (Rs. 4400), Haryana (Rs. 39295) at the higher range and Bihar (Rs. 1904), Orissa (Rs. 1933) and West Bengal (Rs. 2193) at the low end, is not quite satisfactory as it is expressed in current prices and is dependent on infrastructural dependent population expansion and does not really measure the quality of life of the people — the access to wage goods, IMR, literacy, drinking water access. On this, the Operation Research Group findings released in December is that with Rs. 6500 as the poverty cut off line which gives Rs. 9000 as annual household incomes, (even not taking into account the inflation factor), 40 per cent of the households are below the poverty line, with 61 per cent in rural households and 27.5 per cent among them being the poorest of the poor — which are also the finding of the World Bank study on Indian Poverty (See Vol XX pp 408 & 409). In this connection, the disturbing government report should be noted that 8 states — Gujarat, Haryana, Karnataka, Kerala, MP, Maharashtra, Orissa, Rajasthan, UP are performing poorly in their poverty alleviation programmes (JRY & IRDP) releasing only 20—30 per cent of the available funds. This needs urgent action and attention. Another disturbing development is the deceleration of capital formation in the agricultural sector (according to a CACP report) from Rs. 4598 crores per annum during the triennium ending 1982-83 to Rs. 4100 crores in real terms during the triennium ending 1983-84. Is this due to, as claimed by some, to the agricultural price policy and the widening gap between urban and rural incomes caused by the insufficient increases in administered prices of agricultural commodities. It is more likely that the lower output jointly with lower increase in farm prices which have depressed farm incomes have reduced capital formation. There is also the problem of high commodity price depressing demand of those with lower real incomes. In this connection the short sighted lower procurement price for rice is likely to result in a loss of Rs. 100 crores to the government in Punjab alone — involving FCI and the government agencies buying 60 per cent of paddy arrivals instead of the normal 20 per cent. This kind of costly error could have been avoided at a time of resource shortage. Turning to the short term factors (which also have long term overtones), a ministry of finance sponsored study on black income reports that the real estate sector in urban areas, in cities, is its major generator and launderer of black money — of the order of Rs. 40,000. The next three areas of generating black money are large scale manufacturing, film industry and smuggling. Finally the current overview of the economy shows strong inflationary trends despite the lower growth of monetary resources including deposits, the high production of agricultural commodities — foodgrains and oil seeds ; the decline in foreign exchange reserve, the steep increase in the trade deficit — all referred to earlier ; the rising trend in capital issues, with equity issues topping the list ; the emergence of mutual funds with effects on secondary and primary markets ; and a decline in the sanction and disbursements by the financial institutions which will affect the year's economic and industrial growth.

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## Industry

CSO's industrial production at 199.2 for September 1990 means that the growth rate for September 1990 was 8.7 per cent higher than for September 1989. The average index for April-

September 1990 is 200.6 which is a high 11.7 per cent in comparison to the six months of 1989 ; for April-August 1990 it was high at 12.4 per cent (manufacturing 14.2 per cent). But this record may not be sustained for the 3rd quarter as the core infrastructure sector has fallen by 3.5 per cent for October, crude by 11 per cent, coal by 10 per cent, cement declining to 2.3 per cent, electricity declining by 2.2 per cent and saleable steel by 3.9 per cent. As the infrastructural industries supplement the industrial activity of the rest of the economy, this slowdown in infrastructure will effect the entire economy. Even the engineering industry expect a slow down in growth over the last quarter of the year and the first quarter of 1991-92 due to a fall in capacity utilisation, the sharp increase in input costs, inadequate availability of raw materials and financial difficulties. Even when the growth rate is impressive as with electronics industry (averaging over 30 per cent in the 80s), the growth has been unbalanced, with consumer electronics accounting for a large part of the growth. Further with the change from a seller's to a buyer's market, increases in agricultural prices leading to reduced demand as noted earlier, new technology, changing public tastes, failure to modernise plant and machinery, prolonged labour unrest, non availability of raw materials and poor and in some case deceitful managements have led to increasing sickness in industry — both large and medium and small. It is in this context that the proposal for privatisation particularly in the case of sick public sector units is being seriously urged both internally and by the World Bank. The number of units closing down has been on the increase, there should be more take overs, mergers and sales on which BIFR is not yet playing its full part. Here the setting up of a "turn around" fund exclusively for equity participation in sick companies by ICICI is a much needed move in the right direction. Further the RBI's advise to commercial banks to extend financial concessions beyond prescribed norms, if necessary as a means of reviving sick units is also a pointer in the right direction. Here one of the most worrisome recent development is the sickness reported in Banks. UCO Banks balance sheet for 1990 published 8 months later in December shows for the first time that the bank's bottom line is red-recording a large loss of Rs. 5 crores. Last year's report by the auditors with its 16 points qualification showed the serious situation facing the bank. What were the representatives of ministry of finance and RBI who are on the board of management doing all this time ? Will the Rs. 250 crore provided by the government to increase its capital help ? It will not, because what is needed is hard cash, not securities, and this the bank through its turn around must find. The CMIE survey of the investment of Rs. 314 crores by 2200 projects large and medium in its document-Shape of Things to Come, is an impressive record of the industrial performance of both private and public sector units. The weakness of the survey arises from its terms of reference in being limited to manufactures. It needs to be extended to include agricultural investments. Finally organised industry is now learning to live with the political instability characterising the major part of 1990-91. While this collective will to face the instability and achieve certain minimum goals is good, what is needed for industry and economy is for a minimum of political and economic stability to be ensured as rapidly as possible.

### Public Sector units

The first quarter performance of the public sector units is officially stated to be very poor — their loss making units making heavier losses and profit making units recording a fall in their profits. In this background, the usual report of a 5.5 per cent increase in production in October of the 33 enterprises under the Department of heavy Industries becomes a meaningless, routine statement. This also strengthens the demand for privatisation of the public sector or most of it, as noted earlier.

In particular two key units — Hindustan Shipyard and HMT are now under criticism, with the demand that as they are now making losses and are becoming sick they be privatised. There are available and correctable problems — such as unreal prices, over manning, sloth and political interference. Further in the case of HMT, a committee two years ago pointed out that its lead role was being diluted by its getting into the consumer product area. All these can and should be corrected because the alternative of privatising them will not only weaken the economy, we cannot afford the cost of privatisation, when the private sector demands everything — writing of all losses, slashing of the labour force, and large and cheap institutional finances. The public sector can be made viable but for this government and Parliament must be willing to accept the social and economic burden and consequences. The decision of the cabinet committee on prices to strengthen PDS, for instance, is a move in the right direction.

## National Production Front

### SAIL

Short term programmes and problems of SAIL contradict its long term investment plan, which itself keeps changing. While on the one hand its April-October 1990 record is poor both in terms of production of steel ingots at 60.39 lakh tonnes against the target of 71.45 lakh tonnes and its production of saleable steel at 49.87 lakh tonnes against the target of 57.31 lakh tonnes and even its pig iron output at 5.28 lakh tonnes against the target of 5.43 lakh tonnes, it comes out with an Eighth Plan programme for investment of Rs. 10,000 crores for modernisation and technology upgradation of its plans, giving top priority to the modernisation of IISCO followed by strengthening Bokaro in continuous casting facilities. The most curious aspect of the plan is the SAIL statement that funds needs will be internally generated. How this will be done when SAIL has suffered losses in the first 6 months of the year and is likely to meet the same negative situation for the year as a whole is not clear. There are other facets of SAIL's functioning which need scrutiny such as the deal with the same Australian Company whose tender for coal was rejected being now awarded the contract, the slippage in the implementation of the 4 packages of the Rs. 2668 crore modernisation of Durgapur steel — all of which must be set against the claim that it attained 85 per cent of the target of raw steel production as at the end of November 1990.

### Crude

The crude output, like that of steel, is declining as noted earlier at a time when it should atleast maintain its level in order not to make a call on non existent foreign exchange resources. What we have are only plans and programmes and not actual output. ONGC reports that it has worked out

schemes to increase Bombay High crude output by 56.55 million tonnes and gas by 26.84 billion cubic meters by 2000 AD. But what is needed is now, today, to offset the loss of supply and rise in prices of crude as a result of the Gulf shut off. Similarly World Bank approval, it is reported, is expected shortly (how shortly) for the $2 billion scheme to totally eliminate the wasteful flaring of gas on all onshore and offshore structure of ONGC, saving Rs. 3000 crores on the 12 million cubic feet of flared gas per day. This again should have been planned atleast 4 years ago and is now being negotiated, which process, cannot be hurried. Another important programme which will also take sometime to mature is the joint investigation by India and Soviet scientists to develop better catalysts which will make possible use of gas, coal, and other organic materials and cut down the use of petroleum. But this again will not be able to meet the current pressure.

### Coal

The sharp decline in coal supply noted earlier now is not due to floods and rains which have passed. Here it is the outdated machinery in underground mines at low labour productivity in both open cast and underground mines which account for the decline. These are manmade limitation which need to be urgently set right, as the adequate supply of coal is needed not only to keep industry and thermal stations going but to substitute for scarce crude and crude products, as noted earlier. The good record of lignite production at NLC exceeding its target by 4 and 13.2 per cent in October-November do not compensate for the low coal production because of its tiny size.

### Agricultural Production

Kharif harvesting is complete and the arrivals in the market are now also nearing completion. Here the procurement policy and prices for the Kharif crop needs careful review as noted earlier both to avoid waste of resources and guide next year's policy. Rabi sowing is under way and a good rabi crop is expected because of persistent moisture. If to this, there are also some late winter rains, the rabi harvest will exceed last year's 57 million tonnes. Rice procurement at September was 4.86 million tonnes, wheat 1187 million tonnes, so that the buffer was 17.70 million tonnes in October 1990 compared to 13 million tonnes in October 1989.

### Foreign Trade and Balance of Payments

The trade deficit is worsening. In April-October 1990 it rose by a high 41 per cent at Rs. 5334.30 crores compared to April October 1989 when it was already a high Rs. 3793 crores. The trade deficit for the year may reach Rs. 13000 crores. Equally disturbing is that exports growth rate during the period at 21.1 per cent was lower than the growth rate of imports at 25.1 per cent at Rs. 23060 crores. In October 1990 alone exports rose to Rs. 2620.69 crores which was 18.9 per cent while imports during the month shot up by 34.4 cent. The government wants a 28 per cent export growth to attain a 5 per cent GDP growth in the year in order to peg the trade deficit at Rs. 12000 crores. Against this, actual exports growth was only 21 per cent. There is need for a serious scrutiny of imports and cutting back on its increase. Suggestions have been made by the commerce ministry for

cutting back imports by 15 per cent, RBI has asked not to make advances against capital goods imports. What is needed is a detailed item by item examination of the major import items — besides crude and machinery and equipment to fix the reduction by individual items and for that to be executed rapidly. This will involve some reduction in production but that will be the production of goods for elite consumption. The commerce ministry in its latest decision in December has decided to fix a ceiling of 30 per cent for import intensity goods to be produced and exported to the rupee payment countries. Such a ceiling needs to be imposed on all exports, may be at varying levels. The analysis of the 1989-90 import bill of Rs. 35,411 crores has some important lessons for the current year and next year's import policy. 70 per cent of the imports were due to petroleum product, pearls, precious and semi precious stones, machinery, iron and steel, transport equipment, organic chemicals, non ferrous metals, sugar and manufactured fertilisers. Heavy cuts can be made in imports of pearls, precious and semi precious stones, machinery and fertilisers and imports of sugar, iron and steel and project goods can be completely eliminated. This is the time when there is general realisation of the crisis facing the country to make these changes. On the export side, the export-import Bank has established a list of 48 products which have a good export potential. The goods which are not being exported in considerable volume and which fall in this exportable category which should be pushed are toys, sports goods, umbrellas, consumer goods, data processing equipment, colour TV, apparel and pharmaceutical products which have a good market in the industrial countries. On individual items, handloom exports are expanding and will increase by 20 per cent, aluminium exports are likely to fall and which should be countered by advance action. Garment exports at Rs. 4000 crores in December exceeded its year's target of Rs. 3900 crores and is a case of a thrust area doing well. On the other hand silk exports declined by over 40 per cent in the first 6 months of the current year, though its net earnings were high due to the rise in unit export prices by 30 per cent. It is proposed to increase agriculture exports to $8 billion by the end of the VII Plan.

## Loans, Aid and India's Debt

The foreign resources scene is somewhat murky. As at the start of December, the foreign exchange reserve of Rs. 3000 crores was not adequate to cover 3 months imports. A UN committee on the effect of the gulf crisis has recommended immediate technical, financial and material aid to India. Short term borrowing in the international market during the first 9 months of the year has fallen sharply to $400 million from $1.5 to 2 billion during that period in 1989-90. The year's target is $4 billion which will certainly not be reached beyond 25 per cent of that amount as maximum. If this is due to the poor credit rating of the country, it is serious in relation to the foreign exchange needed by the economy during the year. Another messy element is the poor and tardy use of foreign borrowing to the point where the World Bank whose loans for irrigation, roads, and the social sector have been lying nearly unused for 5 years has informed the government that it will cancel all these projects amounting to over $1.5 billion in loan. It is to be regretted that this

kind of situation should have been allowed to develop and against the warnings of cancellation by the World Bank and loans by Asian Development Bank which also faces similar delays, is taking urgent action to see that the funds loans are utilised. This means that the state projects not getting matching funds must be avoided by executive action on land acquisition, leaving the problem of the delayed supply or foreign equipment and components to be supplied on a priority basis by indigenous capital goods producers like HEL and BHEL. EC is giving India a grant of $30 million for its forestry and irrigation projects in the Himalayan region. Japan is granting a loan of Rs. 650 crores for power development in UP. On the fresh loans, ADB is making a loan of $110 million for 2 thermal plants in AP and Tamil Nadu. There is also the offer of the World Bank and ADB to lend $500 million for the power sector through the Power Finance Corporation. Also World Bank and IDA will lend $112.8 million towards Tamil Nadu's Rs. 310 crores agricultural development project. The World Bank announced in December a loan of $200 million for the second national highway that will cover 6 states. The government is also negotiating with IMF for a large loan between $1 to $4 billion to meet the BOP and foreign exchange crisis. In this connection India is also negotiating a 1 year loan of $500 million from Saudi Arabia to meet the country's foreign exchange need. According to World Bank debt table for 1990-91, India's external debt is $62.5 billion in 1980). The total debt service in 1989 was $6.36 billion (against $1.37 billion in 1980 net resources flow of $4.55 billion ($757 million in 1988) and net transfer of $1.59 billion ($565 million in 1980). Ofcourse the steep fall of the exchange value of the rupee inflates India's debt in rupee terms. Although India borrowed only Rs. 2288 crores ($1350 million) during 1989, the value of the total debt against the depreciated rupee in dollar terms was Rs 23,000 crores. India's external debt which stand at $ 68354 million according to OECD on December 31, 1998 works out to Rs. 1,02,592 crores, going upto Rs. 1,18,177 crores and at today's exchange rate of Rs. 18 to the dollar, it has gone up to over Rs. 1,25,000 crores. This means that external debt increased from 12.5 per cent of GDP in March 1980 to 17.8 per cent of GDP in March 1989 and to 18.37 per cent in 1990. Is it possible to repair this damage caused by the depreciating rupee ?

## International

### Uruguay Round

The world trade negotiations - called the Uruguay round - has collapsed. Its collapse is an indication that the industrial world does not believe that trade liberalisation will be in their interest. Behind this fundamental fact there are several factors : 1) the emergence of a United Germany : 2) the European community of 1992 : 3) the changes in the Soviets, China and East Europe : 4) the fear that free trade or trade liberalisation will benefit only the newly industrialised countries which are seen to pose a major threat to the market of the industrial countries. For instance, the World Bank estimates that the major beneficiary of trade liberalisation will be South Korea whose exports will be boosted by 21.6 per cent : 5) there is the realisation that trade liberalisation is not the means of increasing the exports of the industrial countries : 6) it is not simply

that the European community was unwilling to give up its agricultural subsidies. The United States agriculture is the most heavily subsidised in the world and they are unwilling to give up their subsidies: 7) the industrial countries are increasingly conscious of the need to protect their market. OECD reports that its 25 rich member states are throttling international trade through import quotas, voluntary exports and restraint agreements, safeguard measures, variable import duties and anti-dumping laws. In the US and other Western economies 500 of the biggest firms have a turnover of $4.6 trillion (which is near the $5 trillion of US (GDP). These TNCs and 500 top banks whose turnover is equally large want their home markets to be protected: 8) Uruguay Round's greatest failure was its denunciation by US which have displayed the strongest pressures towards protectionism. The countries with the greatest stakes in trade liberalisation are economically weak like India or small like Africa and Latin America. Hence what is emerging are 4 major trading blocks—North America, EC, Asia — Pacific which account for half of the $1.5 trillion of the world trade. Trade liberalisation will be the lowering of trade barriers between the countries in each block and dealing with other countries through bilateral negotiations. This is embodied in the US World Trade Act but it is at the heart of every industrial country's foreign trade policy. The World Bank has said that the failure of the Uruguay round will hit hardest the poor countries particularly for India. But that is of no international concern. There is a meeting of GATT members of the Uruguay round called at Geneva on January 15 but this will produce nothing, as the industrial world which calls the tune does not want trade liberalisation.

## World Economy

The UN survey reports a lowering of the world economy in 1990 with per capita output falling for the first time since 1982 and overall global output increasing by 1 per cent against the 4 per cent growth in 1988 and 3 per cent in 1989. While Asian economies recorded high growth, the economies of North America, Africa and Europe remained stagnant, the economy of Latin America declining and that of the Soviet Union and Eastern being in disarray. This slow down was not the result of the Gulf crisis, which occured in the second half of the year, but due to the slow recession in major industrial countries, the transition in Eastern Europe and the stabilisation effort in Latin America. World trade, however, remained buoyant with exports increasing by 5.5 per cent in volume. The gulf crisis affected the world economy only marginally as the trade of Iraq and Kuwait under the UN embargo constituted only 1 per cent of world imports. In industrial economies the slow down signalled the end of an unusually long period of steady growth. The deceleration in developing countries was not related to the industrial world but due to the stabilisation policy of the countries. The deceleration was also sharp in US and Canada where output growth was 1 per cent, in Japan the growth rate raising from 4.9 per cent last year to 5.5 per cent this year and the growth rate being unchanged in Germany. Unemployment began to rise in US and Canada and inflation rose by 5 per cent in 1990 compared to 4.4 per cent and 3.2 per cent in the 2 previous years.

## World Debt

The World Bank projects an all time high $1,341 billions in the external debt of developing countries in 1990, which is a 6 per cent increase over that of 1989. This is based on the Bank's world debt tables for 1990-91 which assumes that the gulf crisis will not result in a rise in oil prices beyond $25 a barrel. This is bad news, despite what the Bank says, because it vaults over the net transfer of $50 billion in just one year, 1988, from the third world to the industrial countries. The Baker and Brady plans have brought little relief to the indebted countries, that jacked up interest rates has meant that more than 50 per cent of annual debt servicing is made up of interest payments and not that of the previous year. The US estimates the third world debt at a higher $1.9 trillion this year up from last year $1.51 trillion and $780 billion in 1984. The development strategy for 1991-2000 adopted by UN General Assembly calls for finding innovative solutions to get development in these countries quickly moving again. The policies proposed for the countries is a review of their tax policy, regulations and accounting practices to make it easier for indebted countries to reduce their debts. The indebted countries should be more efficient and adopt economic measures which return them to their growth path. There is little that is innovative in this advise. Innovative action is needed to scale down the debts.

## World Aid

OECD's DAC in its just published report states that the aggregate resource flows to developing countries from bilateral and multilateral sources was $ 110 billion in 1989, a rise of 3 per cent from $109.9 billion in 1988. Most of the increased aid was in the form of private flows and export credits — which is no aid — the private flows being $ 40 billion and official flows $67 billion ODA and multilateral flows were $68 billion (+4 per cent). Net disbursement of ODA from the DAC countries declined by 1.6 per cent, from $ 48.1 billion in 1988 to $46.7 billion in 1989. ODA as a share of GNP of the DAC countries declined from 0.36 per cent in 1988 to 0.33 per cent in 1989 (the target being over double that at 0.7 per cent). Only Norway, Sweden, Denmark and Holland stand out as the highest donor (Norway was 1.64 per cent) whereas for US it was 0.45 per cent. This record shows that even by including all sorts of item in aid, the reource flow to developing countries is both on the decline and on hard terms.

## IMF

In its report on capital flight, IMF calls for sustained reduction of fiscal deficit to reduce the risks of holding growing domestic debt. Large fiscal deficit financed with non indexed domestic debts will create the expectation of an inflation tax and devaluation possibility which will hold up development. Fixed exchange rates coupled with wage priority and price rigidities and inefficient tax systems suggest the urgent need for tax reform and sound macro economic policies to stem capital flight. In all this impressive sounding advise, there is no reference to the demands of development and of the poor majority in the countries. In a latter report from its Bureau of Statistics and Exchange and Trade Relations it calls attention to the

slowing down of international banking activity in the first 2 quarters of 1990, particularly 923 billion dollar net decline in claims on developing countries along with a rise in inter — bank liabilities by 27 billion dollars. These trends reflect a slow down of international banking activity in European countries, partly offset by a rebound of international banking activity in the US. The effect of these movements on developing countries is yet to be analysed.

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## II. Agricultural Development in Tamil Nadu

**Paddy and other crops.**

Farmers are slowly recovering from the unsatisfactory south west monsoon; the first crop of kuruvai and sornawari raised by the farmers covered only about 1.9 lakh hectares instead of the normal 4 to 5 lakh hectares. Over the following samba season the farmer is trying to make up for his loss in kar cultivation but so far he has been able to cultivate only 15 lakh hectares by December this year and with the December rains, if there is adequate precipitation in January (as there was heavy rains at the end of December) the coverage may increase to 18 lakh hectares, so that in terms of paddy hectarage there will be a shortfall this year. It needs to be recalled that the farmers covered about 24 lakh hectares under the 3 crops of kuruvai and sornawari, samba and navarai but are likely to work on less than 20 lakh hectares this year. But as the farmer now learnt to use this limited paddy hectarage intensively, the total paddy production could still reach the target of 60 lakh tonnes. This short fall in paddy area is suffered by farmers in the districts of North Arcot, South Arcot, Salem, Dharmapuri, Periyar, Coimbatore, Pasumpon Thevar and Kamarajar. The two major spells at the beginning and the middle of the NE monsoon has benefited farmers in coastal districts. Farmers in the West and some central districts lack water for their cultivation; what they need is heavy rains towards the end of December and the beginning of January. Of the 6000 PWD irrigation tanks each having an ayacut of about 200 acres as noted earlier, only 1261 mainly in Chengai-Anna and Kattabomman districts became full and about 2000 tanks can help the farmer with his crop for a period ranging between 2 to 3 months. Farmers in Tirunelveli district are planning to increase their cultivation area during Pistanam crop and the Navarai in Chengai Anna-where farmers use lift irrigation for their paddy field. For the final stage of the paddy crop, farmers and government hopes are pinned on the interim order to the Cauvery water disputes Tribunal to which reference was made earlier. This limited water availability has also affected the farmers cultivating millets. In area, there is a shortfall of about 1 lakh hectares compared to last year and 2 lakh hectares compared to the normal extent. In pulses the shortfall is serious

3.68 lakh hectares against the 12 lakh hectares target, for cotton it is 1.23 lakh hectares against the target of 2.3 lakh hectares, for sugarcane 1.68 lakh hectares against 2 lakh hectares target. But these shortfalls unlike that of paddy can be covered in the remaining months. For next year and the following seven years, the Tamil Nadu farmer is looking to the World Bank aided Rs. 310 crore project which will make available more inputs and water to him and bring a larger area under cultivation.

## Research results

Of the 32 Research reports recorded in December, 5 reports commend attention as they refer to important techniques for immediate use by the farmers on farm products. Two reports from the Agricultural College for Research Institute, Killikula and the Madras Christian College refer to rice and paddy growth, one for boosting the yield, two to three fold by the use of some of the many naturally occuring plant chemicals and hormones which can supplement the several native substances being used by paddy farmer ; secondly to counter the sheath blight facing paddy farmers in the Cauvery and Tambaraparani areas, the 6 steps of burning the affected shrubs, deep ploughing and seed treatment and praying can be immediately adopted by them. Similarly a report from the TN Cooperative Sugar lab at Chingleput about the operation of the means of controlling and infact stamping out cane pest, the sugar cane hopper, by use of the tiny bugs from the North Indian cane fields which chock the sugar cane hopper can and should be spread for use by all sugarcane farmers here. A third group of reports from AP Agricultural University, TNAU, Tiruchi laboratory and Vridachalam centre on means of countering the castor pest through the 3 steps of bio control developed by APAU, the spraying to be used to control leaf miner in groundnut demonstrated by TNAU Tiruchi and the improved curing techniques for turmeric development at Vridachalam are all ready to be transferred to the farmer now. Two reports on the results of developing hybrids — cotton at UAS, Dharwad and pigeon pea at ICRISAT are now ready for transfer to the appropriate farmers for field use. Finally 2 reports on control of animal ailments are also ready for application to the cattle stalls : the Izatnagar detailed prescription for controlling and eliminating fluorsis in dairy animals can be used by dairy farmers. Similarly the identification of the symptoms of the PPR viral infection in goats and its diagnosis and means of cure as developed by the Madras Veterinary College are needed by goat breeders over the state and should be made available to them.

## Plantation Crops

There are certain commonalities that mark the 5 plantation crops—tea, coffee, rubber, cardamom and pepper. First all of them cater first to the large domestic market, except coffee which has certain regional characteristics. Second they are major foreign exchange earners accounting for 70-80 per cent of the export earnings of the agricultural sector. Occupying only 2 per cent of 177 million hectares of agricultural lands, it contributes 2 per cent of GDP. Third there is a very delicate supply — demand balance that each of them faces, with (except in the case of coffee), the production being inadequate to meet both domestic and export demand. Fourth they are research starved — with only 0.1 per cent of the funds on research

being spent on them and so face problem of pests, plant disease, drought for all of which there are technical solutions. Starting with *tea,* its output has been a high 700 million kg. in 1987-88, which is a 25 per cent increase. For 1990, 715 million kg output is expected over that of the previous year. Government tea policy has swung between insistence on meeting increased domestic consumption which leads to limits on exports (particularly when elections are near) and calls for making special efforts on exports as was done at the Calcutta meeting to meet the empty foreign exchange coffers of the government. Today tea exports are around 200 to 215 million kgs, leaving 450 million kg for domestic consumption. Even so exports will be 190 million tonnes in 1990 earning Rs. 950 crores. With this strong home support, tea exports are a secondary matter for the producers. This is further strengthened by the continuous rise in tea prices since March 1989 due to a) low level of the 1989 carry over b) decline in productivity in 1989, c) the increasing pressure of domestic demand and the higher levels of export during 1989 and f) lower level of production wrongly anticipated for 1989.

Turning next to *Coffee,* the Coffee Board estimates the 1990-91 coffee production at 1,75,000 tonnes against 1,19,000 tonnes in 1989-90; the total exports in 1989-90 at 1,32,320 tonnes valued at Rs. 136 crores ; between April-September 1990-91, exports were lower at 53,191 tonnes valued at Rs. 149 crores. As noted in earlier issues of the Bulletin, the demand profile of coffee is just the reverse of tea. The home market is the weak link in the chain less than 30 per cent of the total production being sold at home. Why the huge population of over 800 million consume only 65,000 tonnes (and almost all of it in the South) is strange, with the IIM, Calcutta study hazarding the view that this is the result of the artificial manipulation of the market. The global coffee development following the collapse of ICO quotas has resulted in cut throat competition and falling coffee prices, which will be worsened when USSR join ICO, which will take away an important coffee market from India. Regarding *Rubber* there is little to be added to the analysis of it in the last issue of the Bulletin. Despite the annual 4 per cent rise in rubber production due to use of HYV planting materials and area expansion, demand has risen faster than production and so import of rubber has become a permanent feature of the scene, standing at 44,871 tonnes in 1989-90 and 27,626 tonnes in the first quarter of 1990-91. Prices are fluctuating, falling in the last quarter of 1990 and a policy on rubber prices awaits the study which has been completed of its cost of production. In regard to *Cardamom* production has been growing steadily and is estimated to reach 4300 tonnes in 1990-91 while its export is only 171 tonnes in 1989-90 with an increase of only 9 tonnes in the first half of 1990-91. The reason for this declining export volume is the success of the Spices Board in widening the domestic market to offset the Gautemala competition, with the result that today 4000 tonnes of cardamom are consumed at home. This is right for the first function of the plantation industry, as in all agriculture and industry, is to feed the domestic market and export only the surplus. Another spice *pepper* has suffered a set back because of the wilt disease and so output has declined to

52000 tonnes against the target of 65000 tonnes, though exports have picked up at 16320 tonnes during the first 6 months of 1990-91 (against 13,881 tonnes for all of 1989-90). A common problem suffered by the plantation industry is its technological lag, seen in the reaction of foreigners to the products - Indian cardamoms is regarded as inferior both in yield and quality to that of Gautemala: Indian coffee is rated lower than that of Brazil and Central America: the quality of Indian pepper has been critically commented on by US users. But quite apart from the foreign reaction to our plantation products, there is now a general realisation that there is need both for a more intensive research effort in plantations and also infact more important to use extension as a means of ensuring that the resulting technologies are made known and used by the plantation owners - large and small. The research priorities for the plantation industries set by the Institute are: a) plant breeding for resistance/tolerance to diseases pests and drought, b) increased productivity and high quality, c) establishment of gene banks, d) development and application of tissue cultural techniques for rapid multiplication of elite types, e) creation of variation through somatic embroyo culture and proplasm fusions. This calls for a multidisciplinary approach for all plantation crops to result in pesticide residue analysis, genetic engineering and biotechnology, cryo-preservation centres, insectarium and cultural data bank. *Coconut* which has now been classed as an oilseed needs intensive investigation as a means of containing coconut root so that the VIII Plan target of 12,000 million nuts over 21 lakh hectares are attained. Finally the present lack of research funding should be substituted by levying a I per cent contribution on gross turnover on all plantation crops. This can and should be realised in the remaining 4 years of the VIII Plan.

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## III. Industrial Development in Tamil Nadu

December recorded the usual plus and minus points in the industrialisation picture of the state. First the plus points, the government points to some positive indicators on the *accelerated industrialisation* of the state. Against the 1989-90 subsidy of Rs. 4.24 crores for setting up new, large and medium units, between April - November of the year, 1990, Rs. 7.33 crores had been sanctioned: under the scheme of loan or deferral of sales tax to new units Rs. 12.26 crores were provided in 1989-90, but between April-November 1990, Rs. 104.95 crores were authorised: work on the development of the 3 urban sanctioned growth centres at Perundurai, Nannilam and Gangaikondan is about to start. Two *printing* establishments are being developed, one is by ITC in a Rs. 900 crore project for manufacture of newsprint and printing - writing paper jointly with Tamil Nadu News Print (TNPL) and other on the rapid development of small letter press printing units (1500 of them), desk

printing units 1500 of them), desk top printing units and offset and printing press all in Coimbatore to cater to the printing business demanded by growing industries and galloping business activities. Again the *Coimbatore pioneer Machine Works* (CPMW) is being merged with Lakshmi Automatic Loom works on the approval of BIFR which would increase the equity capital CPMW, improve and rationalise its management and restrain its work force in the new technology being introduced. Ashok Leyland's *Hosur Hino engine manufacturing* unit is moving towards fuller indigenisation (80 per cent) over the present 40 per cent and to double its production of engines from 500 to 1000 a month calling for capital expansion and increased trained labour force. *Madras Refineries* which has launched the pincer technology project to recover contextual pins as part of its drive to conserve energy, reports that it will be implementing several projects-tube expansion, good grade hexane, sewerage water treatment etc-all with an additional investment of Rs. 650 crores from its internal resources. In addition, there is the Rs. 1380 crores Aromatics projects which was approved (see Vol XXp 457) but which with the change in government is being reviewed again. This is not a positive factor, and is a case of politics intervening and interfering with industry. An encouraging development is the step taken by the Manali complex of petro chemicals works for dealing with their major problems in an integrated way. These problems include disaster management and fire fighting, the use of MRL feed stock, roads, telecommunication, schools and hospitals, water and sanitation. This could be a pointer to other such large units in Coimbatore, Hosur etc. *TI cycles* announces its shifting its component sourcing to Tamil Nadu from Punjab, which specialises in this area, not because conditions in the state are industially more attractive but in order to avoid the disturbed condition in the North. Similarly *SPIC* is buying the TIDCO's 40 per cent shares in TAC, which is a move in the right direction of the state not taking on entrepreneurial function. Finally the decision to ban the export of finished *leather* will enable the large number of leather factories and firms to produce value added leather goods as well as their exports. The plea of some parts of the industry to defer for 2 years the decision on the banning will simply put off the day when the industry will face the recession in the market of the US. In Europe and USSR there are no decline in the demand for leather goods.

Against this flurry of industrial activities in December, there are some serious negative facts to be noted. Some long term factors are having a depressing effect, such as the *direction and rate of industrial investment* with little union investment uncompensated by the private or joint or associated sector, the heavy reliance on traditional industries like cotton textiles, sugar mills and non metallic mineral projects, the direction of savings in non financial assets, and the failure of inhouse research activities to promote innovation. Second, attention has been called in the previous issue of the Bulletin to the trend of *the Savers in the State not being part of its boom in the capital market*, not being involved in the run away equity culture that characterise Bombay, Ahmedabad, Calcutta and Punjab. Taking just one index out of 31 lakh new issue investors. Madras has only 80,000 against

7.6 lakh from Ahmedabad 5.9 lakhs from Bombay, 2.8 lakhs from Delhi and as Tamil Nadu companies are doing well and infact attracting equity investment from outside and Tamil Nadu savers prefer bank deposits and fixed assets to investing in equity. Further, Tamil Nadu firms are not in the forefront of the race to raise fresh capital. Hence the question has been raised whether once more Tamil Nadu will be losing out in the industrialisation race gripping the country. On more limited examples of the minus factors at work, *Buckingham & Carnatic Mills* is in a serious situation and has applied to government to close down its mills due in part to prolonged labour trouble and in part to managerial incompetence. This is particularly regretful as Bombay has just received a letter of Intent for implementing its Rs. 60 crore modernisation programme sanctioned by IDBI. Its Bangalore unit has started the programme and the Madras unit is stuck because of the deadlock referred to. *Brooke Bond* is missing out a high growth business opportunity by going slow in the poly bag segment of the retail tea market and as a consequence losing out to Tata Tea according to the Credit Rating and Information Services of India Limited (CRISIL). The complex fertilisers manufacturing units of *Madras Fertilisers* is in serious trouble as it has had to close the unit for want of phosphoric acid, one of its essential inputs needed by it for its end product fertilisers, 17-17-17 NPK. This is the second time that MFI faces this kind of interruption which reduces its capacity use. Another negative area is *engineering exports* — auto growth, commercial vehicles, machine tools, textile machinery, industrial castings and values, cutting tools and marine freight containers — where the decline in demand of the Gulf countries due to the embargo and the Gulf crisis is causing a fall off in exports from Tamil Nadu and other Southern states. Again the conflicting stands taken by the 2 departments of state (industries and rural development) on a supreme court judgement has caused a dispute with *India Cements quarries unit*. The result is that several hundred metres of granite are unlifted resulting in heavy loss to the firm and the government. Another area of concern is that related to the 2000 *soap manufacturing units* centered mainly in Coimbatore with an annual turnover of Rs. 200 crores who face raw material shortage (the 30 percent crude cut has dried their supply of linear alkyl benezene) and so has not only held back the 10 year plan to increase soap production by 300 per cent, but has forced the units to close down — hopefully temporarily. *Enfield India* has reversed the several earlier decision to sell its sick subsidiary Enfield Electronics and has instead applied to the India Bank for a Rs. 6 crore of line of credit. This is a questionable decision, because its loss is likely to continue. It is shifting its plant and machinery from its Ranipet location to Madras which it hopes will enable the subsidiary to enjoy some of the common facilities of the present company. However as it is restricting the inhouse assembly of sets and instead buying them in bulk from a Delhi firm its assumption of economy is questionable. This is a case when the private sector firm is using poor judgement. The need for meeting adequately the demand of the state for fertilisers either by expanding the existing units — MFL, SPIC, NLC or preferably by granting approval to MFL's proposal to start a gas based fertiliser plant at Cuddalore, referred to earlier (see Vol XX p425) needs attention

to prevent the growing feeling that the state in general is being neglected by union authorities centred in Delhi. Once more this balance of plus and minus seem to tilt the scales against the state's rapid or even normal pace of industrialisation.

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## IV Education, Science and Health

### Educational Reforms

The Ramamurthy Commission handed its report to the Government which did not release it but said it would place it before Parliament, Titled Towards an Enlightened and Human Society, the report is in 3 parts—Part I its recommendations. Part II is the public's perceptions on education and Part III is the reactions it has received for its perspective paper (see Vol XX p508 & 809). Atlast the census which is starting now has redefined child literacy and rightly decided to consider children upto the age of 6 as illiterates. This seems obvious, but often the volume or percentage of illiteracy taken from census includes all enumerated in it except those who are noted as educated or in school and college. All of us-rich and poor, and all castes and in all regions are born illiterates and so it is necessary to exclude these from the definition of illiteracy. The latest survey of the Operation Research Group states that on this basis 57 per cent of adults of 5 years in the country are illiterates, with the rate being a high 80 per cent in the Hindi belt. One fourth of urban adults are illiterate while it is 68 per cent in rural areas. The adult population is increasing in percentage terms, nearly being 45 years and older but the number of adults in the age group 15-24 is much higher in urban than in rural India indicating the migration trends. One fourth urban adults are illiterate including 37 per cent of urban and dependents (their literacy rates increases as family incomes increases), while 68 per cent of rural adults and 69 per cent of rural housewives are unlettered. The report shows also higher non education and higher unemployment among women compared to men. We now have all the data on illiteracy what is needed is action to wipe it out at the adult level through MPFL and BGVG and through primary schools. Rajasthan reports an educational primary school experiment which takes account of the fact that though there is a surplus of educated unemployed in the country and state, there are remote villages and habitation of major illiteracy and poverty where no trained teachers are willing to serve. In this situation, taking a leaf from the National Adult Education Programme, the government chose a person from the village who has had 8-10 years of schooling and gives him intensive training for a month on teaching methods. The project is successful and its assessment in a bloc when it was made showed that it is doing well. The teacher is a local person and so fits in with formidable difficulties of poverty and

illiteracy. There are 3 changes which should be made in the scheme. First, there is no need to have Swedish aid for the project. We have the resources for it. Second, the teacher to be should be chosen not by the state goverment but by the local panchayat. Third, the period of training should be extended. At the level of professional and technical education, the World Bank has added to the documentation on the need for reconciliating professional and particularly polytechnic education. On the one hand it points out that Indian industry has found ITI trainees of poor quality or not trained according to their needs. 15 years ago MIDS in an exhaustive study pointed this out and suggested that their training should be done not only in closed classrooms or, workshops but essentially in industries, because for one thing industrial techniques are changing so fast that no ITI curriculum can keep up with changes. Now the World Bank comes back to this and says that the linkages between ITIs and industry should be strengthened and in this regard private ITIs are in a better position as they have close links with industry, some of them being sponsored and funded by industry. The Bank report reviews also the National Vocational Training System (NVTS) and recommends its expanded intakes as it estimates that 1.45 lakh technicians will be needed by 1995 against the current output of 90,000 which will go upto 1.1 lakh by 1995. It wants the training levels of ITI and apprentice scheme trainees to be raised. The same problem is faced by polytechnics when they are unable to attract people from industries to their faculty. The World Bank's suggestion on this is to recruit academically high level persons to the polytechnic staff and give them exposure in industry for 6 months. These are essential and rather well known problems and remedies. The government is getting a loan from the World Bank for polytechnic upgradation. Just as both the diagnosis and remedies are known' the Bank funds are not needed as they simply divert scarce local national resources as convterpart funds for these programmes, which should be decided on the basis not of funds available but of the priority needs of the institutions and industries. In this area of technical education, special attention and provision is needed for women's stechnical training to enable them to qualify and enter economically independent professions. In university education, a meeting of Vice Chancellors and the Chancellor in the state has decided to accept the UGC guidelines for performance approval of the university and college teachers and so to improve their recruitment. The universities are to coordinate their programme in adult education which is needed as much for their health as a means of meeting the needs of the illiterates.

## Science

As in the case of polytechnic teachers not attracting men from industry, in science today the problem is not brain-drain to other countries so much as an "internal haemorrage". Outstanding science graduates are being attracted by IAS, banks, computer science and management. The need is to develop a system when these few good science students will stay in the science stream and develop to the high level. How far is the lack of incentives at the end the cause compared to the rival avocations, how far the environment for science is basically poor and unattractive needs further examination to solve the problem. One of the programmes which can attract scientists as well as engineer-

ing students in the system of science parks where the infrastructure of workshops, tools and equipment and raw materials are provided to develop industrial openings and outputs and not simply to meet the needs of existing industry. For this there should be motivation of scientists and support from industry — not from government. One of the new areas that is being occupied by scientists — which could also help in retraining scientists in science — is their increasing involvement in basic social and economic programmes, of illiteracy, campaigns (infact it is scientists who have proposed the scheme for all colleges and universities to be closed for a year so that all the 50 lakh staff and students can move out of their educational building to the community where they can act on removing illiteracy, help in providing drinking water, improve nutrition and women's welfare etc) ; in this direction, space scientists have developed a plan for a few synchronous satellite for educational purposes called "Gramsat" which will launch 2 small satellites (at a small cost of Rs. 100 crores). It will function in 6 regional languages and be beamed to workers, students and adult members of the country to remove illiteracy and deal with their problem of health, sanitation, drinking water. The project must provide the equipment for the villagers who are too poor to buy a TV set or a booster. Space scientists have also launched a 100,000 cubic meters baloon carrying diffusion and spherical probe instruments to study and understand the interaction between our biosphere and geosphere with particular reference to the poteential impact of human activity on the country's and world's climate and habitat. Also scientists using data from satellite have prepared the country's first atlas contaning detailed district wise maps of ground water resources as a contribution to solving problem of water availability. Scientists who were working at the fast breeder reactor at Kalpakkam as one means of meeting the country's need for thermal power (it could generate 40 million watts and electricity (it could generate 13 million watts of it) has now hit some technical snags and will be delayed for 3 to 5 years

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## V Employment and Labour Relations

Information on the employment front in December is not encouraging and somewhat confusing. The problem in states is not using JRY & IRDP funds adequately and lagging seriously in employment generation was identified. The remedy proposed by the union government is to call a meeting of the defaulting states and discuss the problem and the remedies. This will get us nowhere-it is like asking a sick person to cure himself. What is needed is for the state government concerned at the level of the chief minister and his cabinet to establish a plan to implement the programme, set priorities, targets and deadlines and monitor their adherence. The confusing element is that while on the one hand, the union government review

shows Tamil Nadu as topping in all other states both in financial and physical activities and implementation of JRY (which in Tamil Nadu is known as the Jawahar Velai Vaipputhittam). an official overall survey of the economy shows that despite a steep increase in the capital employment, value addition output and wages earned, the employment front shows a negative trend. Using ASI data on factories, it shows that number of workers employed was minus one percent, that is a fall from 693,073 persons to 685,142 with a slight increase of the number of employees by 0.4 per cent, from 860,843 to 861.161. The impressive value additional of 2.12 per cent means that this was at the cost of additional employment. The additional investment (9.05 per cent) went into capital intensive and labour saving activities at a time when the Employment Exchanges showed a rising of those registered for employment. While invested capital rose from Rs. 822,840 lakhs to Rs. 896,840 lakhs to Rs. 896,406 lakhs, wages rose from Rs. 74.053 lakhs to Rs. 80,686 lakhs but emoluments grew by 13.39 per cent from Rs. 112.185 lakhs to Rs. 127,208 lakhs-which is on all fours with the difference between workers who are those employed to work in the factories and employees who include besides workers, proprietors, partners, chief and family members. Wages paid to workers include basic wage, DA, OT, shift allowance, leave wage, holiday wage, regular bonus, while emoluments include all this plus the imputed value of benefits in kind. Thus in 1986-87 a factory with an average investment of Rs. 42.74 lakhs in fixed capital and Rs. 60 lakhs in productive capital provided gainful employment to 64 persons, produced goods and services worth Rs. 107.1 lakhs and contributed net value added Rs. 20 lakhs to the state income. Taking an employee as a unit of measurement, an employee in the organised sector had on an average work with a fixed capital stock of Rs. 60,400 gave an output of Rs. 66,300 and contributed to the state income by way of net value added Rs. 31,000.

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## VI. Other Items

### IIEP

The annual meeting of the Governing Board of the International Institute of Educational Planning was held in early December in Paris. It was preceded by a study workshop at Abbe Raymond at which 3 projects in the year's programme were examined in depth and a number of suggestions made to the secretariat to improve future execution. The Board reviewed the Annual Report of the Director for 1990 and noted it with satisfaction. It discussed and approved the programme and budget for 1991 and noted that despite financial constraints, it was well and fully formulated. It ended by electing a new chairman, Mr. Victor Urquidi (Mexico) for a year term, the present chairman having completed his service—two terms of 5 years each.

**TNSC & ST and AIR**

The six monthly meeting of the Executive committee of the Tamil Nadu State Council for Science and Technology met in December. It reviewed the ongoing projects and approved the new projects which were presented, with some being referred to other possible sponsors for funding. The Committee once more expressed the view that there should be the Council's own priority and thrust areas in which research proposals should be invited instead of just responding to requests receive from scientists. It indicated 4 priority areas for council support. The committee approved the budget for 1991-92 and in this it made provision for finance for the centres for transfer of technology. AIR organised a radio discussion on micro level planning — the Indian experience. It was agreed that this level of planning was so far limited to 3 or 4 states and on the basis of their experience it is now necessary to generate this planning level at the panchayat level for which there should be agreement on the subjects to be left to the panchayat and the funds earmarked for their operation. The experience in West Bengal also showed the importance ror micro level planning of a wide fanging programme of land reform to be accomplished as a prior condition.

**Core Group on univeraities and colleges**

The Core Group of educationists, scientists and planners working on a programme for universities and colleges beings closed for one year when their 50 lakh students and staff would work out in villages and urban slums to remove some of the ills of poverty-starting with illiteracy and going on to health, nutrition, environment, water pro blems, met in Madras for 2 days in December as a first step in moving out of Delhi to the country as a whole. In Madras they met the Chancellor Vice Chancellors, Principals of Colleges Student Unions, Parents and Alumni, Political Parties and the Government. There was welcome to the proposal which was seen as one which would give new life and meaning to the country and its leaders. As a result of the meeting in Madras, a core group for the state has been formed with the Vice Chancellor of Anna University as Chairman to Develop the new curricula needed for the programme and to experiment on a small scale with full time work by staff and students on illiteracy and related problems in a locality.

**RDI and Alliance Francaise**

The quarterly meeting of the Board of Directors of Reader's Digest met in Bombay in December. It reviewed the ongoing work of the Digest and noted that despite somewhat depressed market conditions, the Digest is doing well and earning a high level of profits. It noted the problems of obtaining government approval for transmitting the annual license fee to Reader's Digest, New York. There was a meeting of the member of Alliance Francaise in Madras to welcome the New Director of the Alliance. The occasion was used also to suggest some programme for the Alliance and a few joint programmes with the Indian Council of Cultural Relations which would be mutually enriching.

**CSD**

The Annual General Body meeting of the Council for Social Development was held in December in New Delhi. The important research programmes of the council were reviewed and emphasis

was laid on its unique features, as social development was still undefined and research in it rather scanty. The pioneering work in this area by the Council was commended and some guidance was given for future research. In this connection the report of the Review Committee which had just been received was noted and, it was decided that it should first be considered by the executive committee and on the basis of its findings there should be a meeting of the general body to consider the report. The budget for 1991-92 was approved.

## IIC

There was a meeting of the Board of Trustees in December when the problems conected with membership of the centre — the classification, the number in each, the fees — admission and annual fees for each class were discussed and decisions made. It was noted that the General Body meeting would be in March, when the final report of the present director would be presented to the General Body. At a private session of the Board, a first discussion was held on various names which had been suggested for the post of the Director which falls vacant on April 1, 1991. There was general agreement around 2 names which would be further explored and a decision arrived at in a month.

## SPC

The State Planning Commission is becoming quite active. Apart from the 2 meetings in December referred to earlier, preparations were on for a series of meetings in January to review Part I — (ongoing Non-Plan) schemes for 1991-92 to complement Part II — plan schemes which had been reviewed and approved. There are also to be meeting of the commission — to review special sections of the VIII Plan such as water supply and roads.

## January Development Seminar

The paper for the February Seminar Promotion by of SSIs in Tamil Nadu—The Missing Dimension by C. E. Karunakaran together with a summary of the discussion on the paper at the seminar appears as the first article.

## Second Article

A note, Current Deficits and its Malcontents, appears as the second article.

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# M I D S News

Dr. A. Vaidyanathan participated in a workshop on Jawaja Wastelands organised by Society for Promotion of Wastelands Development, New Delhi, 15th January, 1991.

He participated in Dialogue on Bio Technologies : Reaching the Unreached, organised by M/s. Swaminathan Research Foundation, 22nd to 26th January, 1991.

He also participated in Seminar on Problems of Development in Andhra Pradesh organised by Centre for Social Sciences, Hyderabad, 2nd & 3rd February.

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Mr S. Guhan addressed a group of economic and financial journalists at a meeting jointly sponsored by Research Institute for journalism on Eighth Plan for Tamil Nadu on 22nd January.

He made the lead presentation on 'Report of the Ninth Finance Commission: Resource Constraints of States' at seminar organised by the India International Centre (Economic Affairs Group) at New Delhi on 25th January.

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Dr. C. T. Kurien delivered the first of the Harmony India lecture series on "Towards a Secular Society" in Madras on 1st February.

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Dr. S. Neelakantan attended the inauguration of Economic Association at Thiagaraja College, Washermanpet on 11th February.

He also attended Advisory Committee meeting of the Southern Regional Centre of ICSSR at Hyderabad on 28th January.

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Prof. J. C. Sandesara and Prof. Nirmal K. Chandra visited the Institute on 24th January.

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# Promotion of Small Industry in Tamil Nadu - The missing Dimension

C. E. KARUNAKARAN
Managing Director ITCOT, Tamil nadu

The premise on which I would like to start is that the resources available with the state for industrial promotion are extremely limited and the need therefore, is to see that these are most effectively applied to achieve the desired results.

What are these desired results? What ought to be the end results of small industry development in Tamilnadu? Should it be export promotion? Should it be regional balance? Should it be employment generation? Should it be entrepreneurial growth? Should it be rural development?

To answer that it should be all this and more is not satisfactory. You cannot build a strategy on a diffused focus. In a two day Seminar at MIDS last year on the industrialisation of Tamilnadu, Dr. Malcolm Adiseshiah raised the question : Industrialisation for what? This was never adequately answered.

My submission is that direct employment generation in a dispersed manner ought to be the main guiding principle of small industry development in the State, all other objectives becoming secondary. This is on the assumption that unemployment and poverty are the two largest problems facing the country today and lie at the root of all other maladies, including the caste and communal divides.

Forty three years after independence, we find more than half our population below the poverty line (ORG demographic survey of 83,000 households) and 15% of our employable population

not employed. At the micro level, a social scientist (Kathleen Gough) who studied two villages in Thanjavur district in the 1950s and again in the 1980s, found that in the intervening period, more and more rural people have been marginalised and immiserised, not only in relative, but in absolute terms.

What other core concern can there be for our industrialisation drive than the need to address this central reality of our society ?

If employment generation is accepted as the basic objective of small industry promotion, it then becomes necessary to apply this touchstone to the present promotional measures adopted in the State.

But before one can do this, it is useful to come to some understanding of the small industry scene in Tamilnadu. If you ask the Directorate of Industries & Commerce, they would say that Tamilnadu has around 1.1 lakh small scale units. These are the units registered with them with in an investment ceiling of Rs. 35 lakhs for plant and machinery but with no lower limit. A countless number of ther units, not registered with them, also exist. These are apart from the Khadi & Village industries, coir, sericulture, powerloom, handloom and handicrafts units which are not required to register with them. There is also the certainity that a good part of the registered units do not exist for one reason or the other. If all of them do exist, they would probably employ around 7.0 lakh persons if one goes by the all India average.

Going by the Annual Survey of Industries figure, which are more reliable, Tamilnadu, in 1985-86, had around 8.6 lakh persons employed in around 13,000 factories, three quarters of them in units employing more than 50 persons and the rest in small registered factories (having more than 10 employees with power or 20 without). A point of interest is that during the eighties, registered factories have been growing at a slow 3% while the DIC registered SSIs have been growing at 15%. Household industries account for around Rs. 10 lakhs employment according to the 1981 census.

One reality about this spectrum of small industries in Tamilnadu that is of relevance is that it is not a homogeneous whole, but one having specific discontinuities along the size scale. If one looks at units operating at investment levels of Rs. 500, Rs. 5000, Rs. 50,000, Rs. 5 lakhs and Rs. 50 lakhs. It can be seen that they have very little in common with each other in terms of the entrepreneur profile, marketing problems, infrastructural or promotional needs and such other. If one is to draw just one horizontal line alone the pyramidal structure of this industry, it can be done at around the Rs. 1.0 lakh level of investment in plant and machinery, below which would fall 90% the DIC registered SSI units and all of the unregistered units. For convenience, we can call them Village Small Industries (VSI) and the other 10% as Modern Small Industries (MSI).

Do the State activities for small industry promotion take note of this differentiation, and do they make a conscious choice of which segment they would promote more than which other and what measures are more appropriate to what segments ?

I would submit an undifferentiated approach - barring TRYSEM, IRDP and

KVIC - has characterised all central and state policies towards small industry, with the result that, even as happened with agricultural promotion - where credit and extension support designed for small and marginal farmers ended up in the hands of large farmers - policies designed for the very small have largely benefited the SSI units at the upper end of the investment level. Many observers have pointed this out. "Lending agencies tend to lend toward the upper end of any limit established as the definition of small". That he adds "there is no reason to suppose that this is to be regretted" is quite another matter.

Prof. S. K. Goyal goes to the extent of accusing external influences for corrupting the early concept of State protection and assistance for local industries that produce consumer goods to meet local needs using local raw materials, local labour and local skills, and for hijacking it in favour of the modern urban sector, crushing in the process, the very village industries that were sought to be promoted.

That the dice is loaded heavily against the really Small units in Tamilnadu can be seen by any close abservation. Industrial sheds have been provided to 3000 units, government purchasing assistance has been extended to a couple of hundred units and 5000 units benefit by raw material supply, out of a total of more than one lakh registered SSIs and probably an equal number of unregistered SSIs. It is a safe bet that all this assistance is garnered by the modern small sector — and there, too, by a small part of them — with the tiny sector left out in the cold. The same is the case with capital and sales tax subsidies and other measures.

Credit reach to the tiny is also a major problem. RBI Banks do not normally lend to this sector without collateral, and often even with collateral. The SEEUY scheme is very limited in scope, and in its rigidity, has resulted in much sickness.

In a study conducted by ITCOT of 100 defaulting units in SIDCO industrial estates in Tamilnadu. 40% were found closed and of the working units, 40% did not have access to bank funds for working capital, they had to borrow from the outside market at usurious rates. If this is the plight of units in the state sponsored industrial estates — having average fixed assets of Rs. 4 lakhs per unit — the plight of the smaller units elsewhere can be imagined.

In fact, a latter study by ITCOT of more than 200 small units that were not registered with the Directorate of Industries having an averrge capital employed of Rs 20,000-showed that almost all of them were not touched by any of the support measures of State and Central agencies or banks. Their finances came entirely from own sources, friends and relatives and money- lenders. A cynic might say that it is this freedom from governmental support that accourics for the fact that they were alive and kicking.

It is, however, not a cynic, but a responsible economist, J. C. Sandesara, who came to the conclusion, after a field study of modern small sector units, that the unassisted units performed better than the assisted units. As far back as 1961, Dhar & Lydall concluded that the modern small scale sector is as capital intensive as the large scale and does not merit preferential treatment.

Thus we have the picture that almost all of the governmental promotional assistance goes to a very small segment of the small industries in the State, forming part of the modern sector, and even here, the wisdom of providing too much assistance is questioned by some. Little, Mazumdar & Page have this to say on bank credit : "There is nothing necessarily wrong with a scenario in which both inexperienced entrepreneurs starting up in a small way and also small established enterprises are unable to get institutional credit. Easy access to such credit for new enterprises can result in adverse selection whether interest rates are high or low, and then there may be too many founders who will never succeed".

This modern small industry segment, constituting the top of the SSI pyramid, also controls the organised small industry voice raised in all fora. The office bearers of the leading SSI Associations come from this segment and the truly tiny and village industries have no voice. Almost all governmental meetings with SSI Associations are conducted in English, which the vast majority of small industrialists in Tamilnadu are not familiar with. In Madras, there exists an association of tiny industries which claims a member ship far above any other SSI Association, but is not represented in any of the government fora. Its president, who does not speak English, depends on the elder brothers of the other SSI Associations to open the doors of bureaucracy for him.

To say all this is not to imply that the modern small sector is not deserving of support or espousal. It most certainly has a very important role to play, but the point is that attention is so focussed on this sector that quite often, the term SSI is taken to mean only this sector, to the exclusion of the rest of the pyramid that accounts for the bulk of its employment.

Since we have chosen employment generation as the primary odjective of small scale industrialisation, it is necessary to look at the ground realities at the base of the pyramid too. The base, if one looks closely at it, is constituted by the large number of self employed households who have taken to some or other form of subsistence livelihood in non-farm activity, — passive industrialisation, as C. T. Kurien would call it — having been thrown out of the agricultural sector as the land could not support them. They crowd into handicraft, KVIC and other such production, competing against each other and bringing down prices to distress levels. It is significant that some 38% of those below the poverty line are from the self employed households according to the 42nd round of the NSS for the year 1987-88.

This subsistence activity characterises a large part of the informal industry sector in the urban areas as well. The ITCOT study of small unregistered units in Tamilnadu found most of them reporting good profits, but these were before accounting depreciation and value or family labour and often before cost of capital. The profit disappears if this is accounted, but the object of the activity — to provide gainful employment to the man and family—is well served. A similar conclusion is reached by Nirmala Banerjee after a study of the ancillary units to the fan Industry in Calcutta. On finding that if the wages for the owner and his family were to be included his costs would exceed the return, allowing him only a negative return

for the entrepreneurial function, she comments : "In the short run, this kind of pragmatic solution appears to fit in with the general economic policy of the country. It keeps down the costs of the large firms ; it creates some self-employment and it also earns some foreign exchange through exports for the country. However, it must be acknowledged that this has been made possible by the gross exploitation of a section of the country's workers to whom the country has failed to give not only a guarantee of a minimum living but even access to technical knowledge, and information about the market and about facilities offered by the public sector to industrial units".

Going back to the rural sector, growth of any kind of self employment or wage employment in non-agricultural activity, even of the subsistence kind, has been painfully slow. Census and NSS statistics show a decline of household industry in absolute terms. Between 1961 and 1981 rural work force engaged in non-farm activity grew at a low 0.4% per annum, while the rural population grew at 1.7% per annum. It is obvious that creating industries or non-farm activity-in the rural sector is not that easy. What are the constraints? The first is the market.

The Gandhian principle of local production for local consumption ,would work only so long as local incomes rise in a dispersed manner in line with the growth in the national economy. The reality has been, however, that the cities have grown faster at the cost of the villages and whatever development, rural areas have been of a skewed nature, fueling demand for urban products by a small minority of the rural rich. This cannot but happen when the population dependent on agriculture has remainded more or less at 70% over the past four decades, bur agriculture's share in GDP dropped from 60% to 30%.

The crucial importance of strengthening the rural markets is emphasised by many. Reviewing the government policies concerning small scale industries, Arun Ghosh comes to the conclusion that redistribution of landholdings leading to more production and better distribution of income in the villages would be a necessary condition for rural industrialisation.

This is the reality in other parts of the world as well. A joint study carried out by UNDP, UNIDO, ILO, and the Government of the Netherlands on experiences in the development of Rural Small Industrial Enterprises (RSIEs) in nine developing countries (India excluded) came to some very interesting conclusions. A few of them are worth quoting verbatim :

— Micro-policy favouring the growth of rural income should be given priority in RSIE-development strategies and should preferably precede supply-side measures of support to RSIE.

— The development of an agricultural surplus is a pre-condition for the stimulation of non-farming activities such as RSIE in rural areas. If no such surplus exists, efforts should primarily be directed towards achieving such a surplus.

— In order to optimise its effectiveness, supply side institutional support for RSIE should be framed in a macro-policy which enhances the growth of disposable rural income.

In order to stimulate RSIE, more emphasis should be given to favourable macro-policies and general strategies aimed at economic diversification. Such policies should include investments in rural infrastructure and social services, price policies favouring farmers, wide distribution of benefits in rural areas to generate effective demand, and general supporting measures for agriculture (irrigation, extension, research, credit).

Likewise, a joint ILO/UNDP assessment of employment and training programmes in Bangladesh had this to say : "It seems unfortunately clear that far too many resources have gone into traditional, institutionally-based vocational training programs in Bangladesh. For one thing, the more immediate problem in labour market is lack of demand rather than lack of supply. Itis a lack of opportunities more than a lack of persons to fili opportunities This is not to say that there are no training needs in the country, but whatever they are, they are not being well served by the existing training complex with its institutional orientation. Training needs pale in significance relative to employment needs : that is, opportunities for employment. Training permits vacancies to be filled it does not create vacancies or opportunities. One can only wonder at the tilt of resources in favour of training at the expense of resources in favour of the creation of opportunities." This aptly describes much of the TRYSEM programmes in India too.

C. T. Kurien quotes figures from the 29th round of the NSS to show that there is a close correspondence between the Value added per worker in rural industry and the per capita income in the State when one compares Punjab and Orissa. "It is the general development of the area accompanying fast agricultural growth, that seems important for improvement in productivity of rural industries".

It is in this area of generating agricultural incomes in a dispersed manner that Tamilnadu's record is anything but spectacular. Tamilnadu brings up the rear among the ten major agricultural states in India in terms of value added per worker in agriculture in 1980-80 and showed the lowest percentage increase over 1970-70. At 1.12% per annum, it had the second lowest agricultural growth between 1970 and 1984. Neighbouring Karnataka and Andhra Pradesh experienced growths of 2.44% and 3.31%. It has the largest proportion, ᵢ 4% of wage labour among the rural work force (1982-83-figures) having increased from 42% in 1972-73. The real wages of this large body of agricultural workers declined 24% between 1955 and 1980 as compared to Andhra Pradesh where it increased by 4% and Karnataka where it increased by 4% and Karnataka where it decreased by 3%. In fact at the all India level, Papanek finds that the agricultural wages have remained static over a twenty five year period, while the GNP per capita has increased 1.3% per year on average and comes to the conclusion that the entire benefit of growth must have gone to those with human or physical capital. The MIDS report on Tamilnadu's economy also draws attention to the fact that Tamilnadu's position in the poverty map of India is far from flattering.

The implication of all this for the rural market in Tamilnadu must be obvious. It is in this context that the effectiveness of KVIC, TRYSEM, IRDP

and DWCRA, the programmes that are aimed at this sector, need to be viewed. The experiences — target oriented approach, mismatched training, leakage of funds, high administrative cost non creation of assets, loss of assets — have all been documented by many. KVIC industries failure to provide a living wage to their piece rated wage earners — as pointed out by Veena Mazumdar in her exhaustive study of KVIC performance — is directly linked to this market constraint. Even so, there have been limited successes, but the numbers are to small too make any impact.

A second problem is one of reach. An organisation in Karnataka which set out to evaluate gender justice in the implemention of anti-poverty programmes, had to give up as they found the programmes had not even reached their target group — the real poor. The reality in Tamilnadu is no different.

Credit delivery through Banks and the revenue administration has not worked well, and presumably, does not work well anywhere in the world ; the UNDP study of nine countries referred earlier suggests that informal arrangements such as savings and loan associations reach the people better. The examples of SEWA in Ahmedabad and Grameen Bank in Bangla Desh show that lending through small groups where each member guarantees the loans to the other and support each other, works much better, and takes the credit to the really needy. Nine points of the loan to the really needy is its availability, not its subsidisation — which only tends to distort its use.

Everyone, by now, recognises that, for this class of borrowers, credit input by itself, is not enough, more is needed. The 'more' is usually interpretted as training, and quite often, as entrepreneurship training in addition to skill training. This entrepreneurship training or, Entrepreneurship Development Programmes (EDPs) as they are called, are popular with policy makers, banks and governmental departments, because the theory looks attractive, a lot of activity is involved, the training ends in euphoria all round and the results are difficult to measure. These, once again, cover only a small fraction of the real entrepreneurs, are costly to organise and in many cases, their cost effectiveness is open to question.

But the basic point is that these are designed and oriented towards the modern small sector and not the rural small industries. In this perceptive assessment of EDPs as a whole, H. A. Romijn says this eloquently : "Firstly, it is evident that the current EDPs simply do not cater to these groups (the landless and the traditional artisans in the villages). The great majority of EDPs are aimed at the middle classes of society The contact and selection procedure (through advertisements in local newspapers, for example), curriculum design and teaching methods may suit the needs of this group, but they are not appropriate for people without formal education Conventional EDPs may also be physically inaccessible for people in rural areas. Moreover, by section of the population, namely, those possessing certain entrepreuaurial traits, the argument has been advanced that, in view of the underlying justification of this approach, namely that training can be given most effectively to those who stand the best chance of succeeding in business, the basic ingredients of EDPs should remain unchanged even if target groups such as poor rural women and out-of-school youth from low-income groups are

addressed. However, one can also argue that if a substantial impact of unemployment is to be made, it may well be necessary to extend training efforts also to those who do not give evidence of possessing such entrepreneurial competencies ; if for no other reason than that the great majority of this vast group of potential entrepreneurs do not have a feasible alternative employment opportunity and end up in some form of self-employment in any case".

This is the crux of the issue. A great majority of the workers involved in rural non-agricultural enterprises are in Own Account Enterprises, that do not employ hired labour. These self employed persons are not cast in the mould of the classical entrepreneurs, but have had entrepreneurship thrust on them by a society which could not provide full employment to all. They are in the game not because of the profit pull, but because of the poverty push. But entrepreneurs they must be, on pain of failure and greater immiserisation than wage labour.

This dilemma is highlighted by Anuradha Prasad in her evaluation of TRYSEM in the villages near Delhi. TRYSEM, or Training of Rural Youth for Self Employment, was designed as a typical EDP, but after initial failures, the scheme was enlarged to include wage employment as well, which meant that the entrepreneurial component of the training was given a go by altogether. Prasad applied tests of achievement motivation, influence motivation, personal achievement oriented influence and risk taking willingness on the TRYSEM beneficiaries and found them low on all the scores. She comments on the criteria laid out for identification of the beneficiaries : 'Where beneficiary was sought to have aptitude for innovative entrepreneurial activity, he was also sought from the poorest of the poor may not posses this aptitude".

But whether sought and trained under TRYSEM or not, the fact remains that millions enter rural self-employment in this country without the needed entrepreneurial capabilities, simply bacause the wage employment door is shout to them. It is for them that a safety net is advocated, even by the most unabashed votaries of total liberalisation and middle class consumption led growth.

How is this to be done? How does one provide a safety net overcoming the twin problems of insufficiency of market and insufficiency of human resource endowments?"

Strengthening the rural market is a matter of strengthening agriculture. It may sound anachronistic to say : if you want to develop industry, don't promote industry, but promote agriculture. But it needs to be said. It really means that a greater share of the finite to resources of the State should go towards the development of agriculture and the rural economy as a whole with distributive justice. Robert E. Nelson says it well in his review of entrepreneurship and self employment promotion in the Asia-Pacific region : "Programs which stimulate demand for the products of rural small enterprises appear to be valuable and are likely to reduce dependencies and promote a viable rural small enterprise sector. Rural small enterprises in most developing countries appear quite capable of producing more goods if more are demanded. With this approach there might be a de-emphasis on loan schemes, training and extension programs, and increased emphasis on con-

sumption. High income groups spend a considerable amount of their income on imported consumer luxuries, whereas low income groups in rural areas spend most of their income on food and goods produced by local small enterprises. Reducing income disparities in rural areas will have the two fold effect of reducing imports and raising consumption of domestically produced goods".

Action on this is in the area of macro policy and political direction. There is no escaping this if we are serious about employment generation through village industries.

The other market strengthening step will be to reserve a few well defined consumer products — such as footwear, processed food, clothing and soap — for the VSI category against the MSI and large industry, for a limited period of time. This is as much for providing an assured market as for making a public statement of what the priorities are. This is, obviously, in the province of the Central Government, but the State can lobby the case.

As for supply side measures, what needs to be attempted is the creation of an informal channel to act as a buffer between the commercial bank and the individual borrower, cushioning the bank's risks and reaching out to the borrower. The SEWA and Grameen Bank models were mentioned already.

Another model will be to integrate credit delivery with other supports including science and technology interventions. There is, at present, a negligible attempt to reach S & T inputs to this sector. ITCOT's experience in working with tribal persons in the Palani Hills and with the lock artisans of Dindigul has shown that what is needed for effective development at this grassroot level is total incubatory support in all respects, even including consciousness raising and literacy awareness. In practical terms, this is best extended through NGOs who maintain a trusting relationship with the target groups. One arrangement will be for a largely autonomous governmental agency to liaise with NGOs and provide them with training, technology and extension supports. The costs of development delivery will be afordable in the case. A limited model of this will be the CAPART at the central level.

Another model will be the Technology Livelihood Resource Centre of Philippines which not merely serves as a single contact point for all voluntary organisations and co-operatives for facilitating governmental and bank assistance from a multitude of departments, but goes out to create NGOs in areas where they do not exist and sponsors research development appropriate to its client needs.

The question then arises whether the State at present spends any resource in the development of VSIs at all and whether it should be doing more. Whatever the state spends on this at present is as part of central programmes such as KVIB, IRDP and DWCRA or a few internationally funded projects. These are regarded as basically poverty alleviation measures and come under the rural development wing. Since the activities involved are of many kinds, including trade, service, animal husbandry and such other, this is not even regarded as industrialisation and goes under the generic name of income generation.

Is there a case for the State to pitch in heavily for the development of VSIs? I would not enter into arguments on the technical efficiency of SSIs, which are, in any event, applied largely to the MSI, with most studies confined to this sector. Where they are applied to the VSI, great caution needs to be exercised, as pointed out by Nasir Tyabji in the example of the handloom weaver, whose buying and selling prices are not reflective of true costs.

In any event, K. B. Suri, who has his own reservations on the efficacy of SSIs, is dismissive of the efficiency argument when the employment criterion is applied: "if rural industrialisation is accepted as a means to generate employment and improve incomes of the poor, questions about factor intensities and efficiency become some what redundant".

What is obvious is that if employment generation is to be the cornerstone of policy, there is no alternative to fuelling the growth of VSIs-and this includes the tiny sector in the urban and semi-urban areas-to provide jobs to who need it most, and, thereafter, to wean away more persons from agriculture to make that sector more productive.

This is one dimension that has been missing from the State policy of small industry promotion. To rectify the balance, it may be necessary to cut back on some of the current promotional efforts to find the resources. This need not be regretted. The modern small sector has a considerable amount of resilients and will thrive even it some of the props-which could be so only in the minds of the policy framers-are removed. (Ashok V. Desai has concluded, after a field study, that the only two meaninfgul supports to SSI are bank credit and excise duty relief).

Venturing into VSI promotion is a totally different kind of activity and calls for innovative approaches. It will not even be mere industrial promotion. It will be small business promotion, of which industry will be a part. The methods to be adopted can be worked out based on existing models.

But what is needed is the will.

* * * * *

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## Summary of Discussion

Before requesting the author to present his paper on "Promotion of small Industry in Tamil Nadu—The Missing Dimension", the Chairman, in his opening remarks, emphasised the importance of small scale industries in the economy of Tamil Nadu and pointed out the official hurdles that had to be crossed for the development of such industries in the State.

The author began his presentation by noting that direct employment generation is the basic objective of small scale industry promotion and that this touchstone should be applied for evaluating the present promotional measures adopted in the State.

He noted, in Tamil Nadu there are about 1.1 lakh small scale industrial units which are registered with the Directorate of Industries and Commerce. A large number of units which are not registered with the Directorate, are also found in the State. These are apart from the Khadi and Village Industries, Coir, Sericulture, Powerloom and Handicrafts units which are not requested to register with the Directorate of Industries and Commerce.

He claimed, that in the activities of the state the promotion of Small Scale Industry take note of this differentiation, and they do make a conscious choice of the appropriate segment they wish to promote.

According to him, one reality about this spectrum of small industries in Tamil Nadu that is of relevance is that of a non homogenous whole, with specific discontinuities along the scale size. If one looks at units operating at different levels, it can be seen that they have very little in common with each other in terms of the entrepreneur profile, marketing problems, infrastructural or promotional needs and such other.

He noted, credit delivery through Bank and the revenue administration has not worked well in promotion of small scale industry. Everyone, by now, recognises, for this class of borrowers, credit input by itself, is not enough, more is needed. The more is usually interpreted as training and quite often, as entrepreneurial training in addition to skill training. But this basic point is that these are designed and oriented towards the modern small sector and not the rural small industries.

Finally, he emphasised, "What is needed is the will".

In the course of the discussions, several participants pointed out the difficulties in getting data about small scale industries. Also, some of the participants gave detailed examples of how the State government has failed to make use of the opportunities to develop small scale industries. It was agreed that aggressive marketing strategy is essential to promote small scale industries.

P. ANBAZHAGAN

# The current deficit and its 'malcontents'

## A consideration in balance of payments adjustment*

A hapless public in India is witness to a burgeoning deficit on current account of the balance of payments (b.o.p.) An entirely related development of course, is the rising stock of external debt outstanding. Quite simply the payments imbalance has been financed by international borrowing, the exact magnitude of this stock is partly a matter of definition including the question of whether foreign currency denominated NRI accounts in India ought to be treated as external debt. Be this as it may taking a one from Wall Street's bond rating firms, the rest of the world must now view India as a somewhat indebted economy. This ought not to surprise us too much for the debt/export ratio the prime ingredient of credit worthiness has grown from 131 percent in March 1980 to 223 percent in March 1989. On our own initiative, the gravity of the external debt situation is to be assessed in terms of the contracted schedule of re-payment and anticipated trajectory of the current account deficit over the relevent period. An anticipated improvement in the current account prior to when the major portion of repayments are due would lead one to conclude that the external debt situation is not a cause for concern. However, right now the economic horizon scarcely afford the view of a bounty in terms of faster growth of exports over imports. So we had better prepare to adjust to a more sustainable payments situation.

### The twin deficits

A most simple way of understanding the developments in India's external sector is to recall the rule of macroeconomic balances that an economy must obey. This comes through clearly from a re-arrangement of the national income identity as follows $(M-X) = (G+TR-TA) = (I-S)$. where $(M-X)$ is the current account deficit with $M$=imports and $X$=exports, $G$=Government expenditure on goods and services. $TR$=transfers $TA$=taxes which makes $(G+TR-TA)$ the government deficit, while $(I-S)$ is the excess of private sector investment over private saving. The identity permits the reasoning that with $(I-S)$ steady, a growth of the public deficit must lead to a growing deficit in the b.o.p. That is where domestic saving is not

*Abstract from a lecture (revised), delivered at the Centre for Development Studies, Tiruvananthapuram

by P. Balakrishnan

**TABLE 1**

| Year | D/Y | CAD/Y |
|---|---|---|
| 80 - 81 | 1.9 | 1.35 |
| 81 - 82 | 0.9 | 1.62 |
| 82 - 83 | 0.9 | 1.45 |
| 83 - 84 | 0.7 | 1.22 |
| 84 - 85 | 1.6 | 1.38 |
| 85 - 86 | 1.9 | 2.55 |
| 86 - 87 | 2.8 | 2.25 |
| 87 - 88 | 1.8 | 2.16 |
| 88 - 89 | 1.6 | 2.70 |

Notes/Sources : D = deficit of the Central Government (RBI : *Report on Currency and Finance*, and Ministry of Finance : *Budget at a Glance, 1990-91*) CAD = deficit on current account (*Report on Currency and Finance*, various issues. 'CAD/Y' figure for 88-89 is provisional and from RBI : *Annual Report* 1989-90). Y = GNP at market prices except for '88-89 in which year the denominator is GNP at factor cost (*Report on Currency* and *Finance*, various issues, and Economic Survey 1989-90).

**TABLE 2**

| Year | BTG | CAD |
|---|---|---|
| 80 - 81 | —7808.3 | —1656.6 |
| 81 - 82 | —8628·8 | —2317.3 |
| 82 - 83 | —9813.1 | —2296.4 |
| 83 - 34 | —9604.7 | —2262.4 |
| 84 - 85 | —11150.7 | —2852.4 |
| 85 - 86 | —11521.9 | —5927.3 |
| 86 - 87 | —11272.2 | —5830.0 |
| 87 - 88 | —13049.5 | —6292.6 |

Soure / Notes : figures are in crores of rupees : BTG = balance of trade on government account, CAD = deficit on current, account (*Report on Currency and Finance*, various issues)

forthcoming the economy must look abroad for the necessary resources. This prediction is pretty well borne out by the data presented in *Table 1*. Though year-to-year changes in the magnitudes of the two deficits are not always co-ordinated, the on average higher figure for the budget deficit as a share of output for the second half of the eighties is reflected in an identical behaviour of a similar measure of the external deficit. The identity 'works'. But I shall be arguing that it is too aggregative to be of much use in devising a policy response.

## The nature of the external deficit

While the overall category within the b.o.p. that is relevant when calculating the financing requirement is still the current account deficit as a whole, much may be gained in terms of an understanding of the possibilities for correcting the imbalance from a scrutiny of the compostion of the current account. It is only necessary to call for the simplest disaggregation, that of the balance of trade according to private and government transactions, respectively. This information is presented in Table 2. Note that in all of the years (for which the relevant data is available) in the eighties. 'BTG' the balance of trade on government account has remained in deficit and in most of the years it has actually increased. The overall current account deficit 'CAD' has behaved similarly over this period while remaining substantially smaller in magnitude. The last implies that either the balance of trade on private account or "invisibles" as a whole have shown a surplus throughout, which indeed is the case (see successive issues of the 'Report on Currency and Finance, RBI). Even without unravelling the composition of transactions on government account, it is possible to surmise that it is largely constituted by three categories of imports (exports on government accounts being near zero). Over the eighties these have been crude oil and petroleum products, edible oils and defence equipment. Appreciating the content of the current deficit is crucial to an understanding of which among proposed measures are likely to succeed.

## Conventional remedies

In the recent history of developing economies, two cures for a persistent deficit in the b.o.p have often been proposed and on many occasions implemented. These are austerity (as represented by a reduction in aggregate demand) end devaluation. Since stylised facts, in this case pertaining to the outcomes of these policies, are notoriously ill-adopted for use in an evaluation of their prospects for success across historical moments. I shall assume nothing and consider afresh their potential in the present context.

Classically, austerity initiated by a general reduction in government spending is expected to work via the substitution effects following the now lower price of non-tradeable goods with the price of tradeable goods, governed by the 'law-of-one-price' remaining the same, the ensuring relative price shift in favour of tradeables is expected to bring about an increase in the resources allocated to their production. This is expected to improve the trade balance. In India today this is too good a story to be taken seriously as a mechanism for reducing the trade deficit in defence equipment, crude oil, A320s, or even edible oil in the short

run, even if lower government spending was to reduce domestic prices. More likely, austerity would contract domestic income. However the magnitude of reduction in income that may be necessary to bring about a significantly reduced demand for essential imports consumed by the private sector may be unacceptably high even when this process works well. Given the nature of the external deficit, it must be obvious that the macro-economic identity I had highlighted at the start gives us little handle on the Present problem. Non-targetted cutting of the public deficit is not necessarily going to effect the external deficit. Forinstance the government's consumption of oil (and the government is the largest consumer by far) or defence spending can only be dealt with by directly administered cuts. Let me emphasise that the argument is not that a programme of planned austerity cannot work as far as cutting the trade deficit is concerned. The point at the cost of belabouring that an across-the-board reduction in government expending whatever its other beneficial consequences is insufficient. On the other hand targetted austerity must work. One way of seeing it is to note for instance that as pointed out to me by a colleague, this appears to have been a particularly inopportune moment for the government to have allowed air taxis in this country. And on the last let me add that this service being provided by the private sector is not the issue at all.

Devaluation is expected to work by making exports cheap and imports more expensive. Whether a higher price of imported essential goods or intermediate inputs would lead to reduced use of these in the present context is indeed doubtful. In this sense, the present external deficit does appear to correspond to what is referred as a 'structural disequilibrium' in the balance of payments, a condition that is not amenable to a quick fix by manipulating prices. Therefore, in the short run, a devaluation might only contribute to the inflation rate. I am far from suggesting that a devaluation is incapable of correcting a payments imbalance under any circumstances whatsoever. The argument here, in terms of the content of the present deficit, is historically specific. Equally, an over-valued exchange rate could be a considerable source of short-run imbalance, not to mention instability, even in the absence of rupee convertibility, i.e., the current regime of exchange controls, and is to be avoided. However, with the rupee depreciating quite steadily over the past five years (for example the average rupee-sterling exchange rate has risen from 16.85 in 1985—86 to 26.92 in 1989-90) the scope for exchange rate reform as a means of improving the net exports position appears to be limited.

## Guns and butter : of ends and means in adjustment

The present macro-economic configuration in the Indian economy is not sustainable under existing conditions. I am of the view that this requires an adjustment to a lower deficit on current account. The possible lines of action must by now be apparent. There must be an imports squeeze. The confinement of the trade imbalance to the government's books must surely make the task easier to deal with at least at the level of not having to device schemes which the private sector cannot sabotage. But the ease with which an axe may be wielded does not make its

swing any less painful to bear. I refer to the essential goods among India's imports. After all consumption cuts are bitter to swallow. But, less jalebi now might well be one way of at least ensuring this delicacy in the future, unless of course we can completely replenish edible oil imports with domestic supply. There is an inter-temporal substitution story in here that is worth bearing in mind, especially with an eye to maintaing our credit-worthiness in the international credit markets. In any case, less jalebi is just an allegory for the necessary cuts, and need not be foregone in a package of effectively targetted imports reduction. However, in my view, stringent imports controls may well be the only way to shock the economy out of debt, and ought to be considered very seriously indeed. And this short-term measure need not at all be incompatible with a more open trade regime post-adjustment. In fact, the existence of extensive controls as a permanent feature only signals some fundamental disequilibrium in the system and is an attestation to the failure of economic policy. Moreover as Professor Wassily Leontief has observed, when national economic boundaries are closed the balance of economic power immediately shifts away from workers towards the capitalists (or under state capitalism towards the ruling class). Economic nationalism for its own sake is a somewhat crude and outdated ideal.

If import controls are instituted, the economy may well have to be run on a lower gear temporarily. This is so as to avoid the inflationary consequences of reduced supplies of essential goods that might follow. This might well be the elusive role of a reduced private sector deficit under present circumstances, i.e., while it may not be expected to bring down the external deficit, a lowering of domestic demand may be expected to contribute to restraining prices. The government does, of course have the option of managing the possibly lower supplies by rationing the concerned goods. This would keep prices down and the handling of the drought of 1987 suggests what this country's administrative machinery though most often in shambles can on occasion be vivified. Where rationing might fail, the higher domestic inflation rate must be seen as the price to pay for a reduced external deficit. It may also be added that going by past experience the relation between budget, deficits and inflation is quite weak in the Indian economy so that short of effective price controls, reducing domestic demand per se may not have much of an effect on the inflation rate.

I have not spoken of exports. This should hardly be interpreted as implying that they do not matter. To the contrary it has in fact become abundantly clear that the economy must export much more to finance the present proclivity for importation. A sort of having to run in order to stay in one place as it were identifying products, targetting exports providing potential export units with the necessary information and disentangling the red-tape of procedure are as necessary as they are unlikely to bear fruit overnight. But they ought to bo pursued relentlessly. Right now the government does not seem to be a hive of activity on this score.

### Debt and desert

Macro-economic adjustment to a sustainable payments position often

embodies in it an inherently inequitable solution. When an economy as a whole is forced to tighten its belt a large number of those who may not have benefited from the original borrowing are called upon to face privation. In India the role of private capitalists in the increasing indebtedness of the national economy may have been somewhat less than in the Latin American case. Nevertheless distributional questions are germane to the discourse in the present context too. For instance the poor in India are now being asked to pay more for essential imports or to even go without them for a while?, so that the national economy can repay debt, incurred on the purchases of aircraft, among other things it is therefore crucial that even as a part of an adjustment process intertemporal macro economic constraints are respected, distributional concerns are not lost sight of. This can be tackled via a scheme of taxes and subsidies so that the shrinkage in the 'cake' is borne largely by those more likely to have benefited from the external borrowing on at least by the better-off where the beneficiaries cannot so clearly be identified.

The question of the politics of the economies of adjustment has not been addressed. But this is of the essence often so blandly summed-up as political will In the meanwhile economists can help by articulating possibilities. And they should start by pointing out that just as part of the deficit flows from barrels of guns, as it were it ought to be shot down to clear the way for a more meaningful resource allocation. We cannot expect assistance from the political leadership here.

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